DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the three and six months ended September 30, 2021 ("Q2 2022 and "YTD 2022" respectively) compared with the corresponding period ended September 30, 2020 ("Q2 2021 and "YTD 2021" respectively). This discussion is prepared as of November 25, 2021 and should be read in conjunction with (i) the unaudited interim condensed consolidated financial statements and the accompanying notes for the three and six months ended September 30, 2021 and 2020, and (ii) both the audited consolidated financial statements and accompanying MD&A for the fiscal years ended March 31, 2021 and March 31, 2020. Additional information regarding Diamond is available on Diamond's SEDAR profile at www.sedar.com. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars (unless otherwise indicated) which is the Company's functional currency.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. Forward-looking statements can often be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, the ability of the Company to obtain necessary financing, the economy generally, the COVID-19 pandemic, conditions in the target market of the Company, consumer interest in the services and products of the Company, competition and anticipated and unanticipated costs. Such statements could also be materially affected by environmental regulation, liquor regulation, taxation policies, competition, the lack of available and qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal or external sources. Actual results, performance or achievement could differ materially from those expressed herein. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements, except as required by applicable law. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this MD&A. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company.

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

DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

COMPANY OVERVIEW

Diamond Estates Wines and Spirits Inc. is a producer of high-quality wines and a sales agent for over 120 beverage alcohol brands across Canada. The Company operates two wineries, one in Ontario and one in British Columbia, that produce predominantly VQA wines under such well-known brand names as 20 Bees, EastDell, Lakeview Cellars, Dan Aykroyd, Fresh, McMichael Collection, Seasons, Serenity, and Backyard Vineyards.

Through its commercial division, Trajectory Beverage Partners ("TBP"), the Company is the sales agent for many leading international brands in all regions of the country as well as being a distributor in the western provinces. These recognizable brands include Josh wines from California, Fat Bastard and Andre Lurton wines from France, Kaiken wines from Argentina, Blue Nun wines from Germany, Francois Lurton wines from France and Argentina, Felix Solis wines from Spain, Waterloo Brewing from Canada, Landshark Lager from the USA, Marston's beers from England, Edinburgh Gin from Scotland, Tamdhu, Glengoyne and Smokehead single-malt Scotch whiskies, Barcelo Rum from the Dominican Republic, C.K. Mondavi & Family wines including Charles Krug from Napa, Bols Vodka from Amsterdam, Koyle Family Wines from Chile, Pearse Lyons whiskies and gins from Ireland and Fontana di Papa wines from Italy.

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

The Company is committed to achieving its sales objectives through its distribution network, which is focused on the provincial liquor boards, licensed restaurants and bars, grocery chains, Diamond's two retail locations, and export channels. This distribution network is supported by enhanced sales, marketing and promotional programs.

RECENT EVENTS AND Q1 2022 HIGHLIGHTS

- Revenue for Q2 2022 of \$7.1 million, a decrease of \$0.1 million from Q2 2021 revenue of \$7.2 million, due to softness experienced in the months of July and August in the agency business from a combination of delayed orders by provincial retailers in commission markets, slowing growth in most provincial retail segments and supply chain delays in Western Canada;
- Gross margin for Q2 2022 was \$2.7 million, a decrease of \$0.4 million from \$3.1 million in Q2 2021, while gross margin as a percentage of revenue was 38.1% for Q2 2022 compared to 43.0% in Q2 2021, mostly due to a shift in sales mix from commission to buy/sell markets, and to higher volume, lower priced and lower margin brands;

- EBITDA was $(0.2) million in Q2 2022, a decrease of $1.0 million from $0.8 million in Q2 2021, mostly a result of (i) the decrease in gross margin, and (ii) an increase in employee compensation of $0.4 million almost entirely due to a reduction in the comparative subsidies received under the federal government's CEWS program;
- On October 6, 2021, the Company closed on (a) its acquisition of all of the issued and outstanding securities of Equity Wine Group Inc. for consideration totaling $11.6 million, (b) its acquisition of the Shiny Apple craft cider brand for consideration of $2.5 million, (c) the issuance of $1.9 million in equity upon the conversion of convertible debentures (issued in June, 2021) and accrued interest, and (d) the issuance of $6.8 million in equity through its previously announced private placement (see further discussion in "Purchase Agreements and Financings" section below);
- For the rolling twelve-month period ended September 30, 2021, the Company was in breach of its fixed charged covenant ratio. The covenant breach has been cured as of October 6, 2021 with proceeds of the equity raise, as permitted by the Company's credit agreement (*see further discussion in "Liquidity and Capital Resources" section below*);
- During the period from March 17, 2020 to September 30, 2021, the impact of the COVID-19 pandemic continued to shift consumer purchase behaviour from on-premise/out-of-home to in-home consumption. As the COVID-19 safety measures declined in this quarter, Diamond experienced a shift back towards traditional retail and on-premise channels and away from on-line, direct delivery and curbside retail (*see discussion under "Strategic Outlook and Direction" section below*);
- As the global impact of the COVID-19 begins to wane, Diamond has begun to see export shipments rebound as international distributors begin to re-open sales and distribution channels in current and new jurisdictions trending towards pre-pandemic sales volumes; and
- On July 27, 2020, it was announced that the Government of Canada has agreed to repeal the federal excise duty exemption (the "Exemption") of 100% Canadian wine by June 30, 2022. This agreement was reached following a World Trade Organization challenge put forward by Australia. The Federal Finance Minister announced a replacement program to support domestic producers in the Federal budget presented to Parliament on April 19, 2021. Budget 2021 provides a winery support program valued at $101 million for fiscal 2022-23 and 2023-24, to be developed and administered by Agriculture and Agri-Food Canada (AAFC). Details of the program have not been finalized, but it is anticipated that the program will provide sufficient support to fully replace the federal excise tax exemption.

PURCHASE AGREEMENTS AND FINANCINGS

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

(a) **Equity Wine Acquisition**

The purchase consideration for the Equity Wines Acquisition totalled approximately $11.6 million, including the following: (i) $1.5 million in cash, (ii) $5.5 million in common shares of Diamond, being 30,555,557 common shares at a deemed issuance price of $0.18 per share, (iii) 22,916,670 share purchase warrants (with an estimated value of $0.5 million) each entitling the holder to acquire one common share at an exercise price of $0.22 for a period of 36 months; and (iv) assumption of the Equity Wine's term and operating debt of approximately $4.1 million with the Bank of Montreal. The Company is renegotiating the terms of its current banking agreement with BMO to include this assumed debt.

The common shares and share purchase warrants are subject to certain contractual restrictions on trading for a period of 12 months from the date of issuance with equal portions being released from escrow every quarter.

(b) **Stonechurch Acquisition**

The Company acquired all of the rights and title to the Shiny Apple Brand from Stonechurch for aggregate consideration of $2.5 million, which was satisfied by a (i) closing cash payment of $1.1 million; (ii) $1.1 million earn-out payment (deposited into escrow by the Company on closing) payable quarterly over the course of 12 months following closing depending on sales targets being met; and (iii) $300,000 inventory holdback. Diamond and Stonechurch also entered into a production and co-packing agreement whereby Stonechurch will continue to produce the Shiny Apple Brand under Diamond's monitoring and oversight for a minimum period of 24 months.

On November 10, 2021, the Company announced that the inventory holdback of $300,000 set out above had been released from escrow. The closing inventory has been valued at $166,613, which resulted in $133,386 plus accrued interest being refunded to Diamond.

(c) **Conversion of Debentures**

Holders of the Company's 10% unsecured convertible debentures issued on June 10, 2021 in the aggregate principal amount of $1.83 million, all of whom are considered insiders of the Company, have each elected to have the Financing detailed below constitute an early maturity date pursuant to the terms of the debentures, which Diamond has elected to satisfy pursuant to a shares-for-debt transaction. Therefore, the obligations of the debentures will be extinguished, and Diamond issued, in satisfaction of $1,889,162 representing the principal and interest owing under the debentures, 10,495,342 units at a price of $0.18 per unit to the debenture holders.

(d) **Financing**

The Company closed its previously announced brokered private placement, conducted by Paradigm Capital Inc. (the "Agent"). The financing consisted of the issuance of 37,703,975 units at a price of $0.18 per unit for gross proceeds of $6,786,715 with each unit consisting of one common share and three-quarters (¾) of one share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of $0.22 per common share for 36 months.

(e) **Agency Agreement**

Pursuant to the terms of an agency agreement between the Agent and the Company, the Agent received a cash fee equal to 6.0% of the aggregate gross proceeds of the financing and broker warrants equal to 6.0% of the number of units issued pursuant to the financing. The Agent received a reduced fee of 3.0% cash and a reduced number of broker warrants equal to 3.0% of the aggregate number of units sold to purchasers on the President's List.

Each broker warrant entitles the holder to acquire one broker unit at $0.18 per broker unit for a period for 24 months. Each broker unit consists of one common share and three-quarters (¾) of one share purchase warrant (each whole warrant, a "Broker Unit Warrant"). Each Broker Unit Warrant is exercisable to acquire one common share at an exercise price of $0.22 per common share for 36 months.

The Company paid an aggregate of $294,805 in cash commissions and issued 1,636,807 broker units to the Agent.

QUARTERLY PERFORMANCE (UNAUDITED)

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

	Sep-2021 Q2 2022 $	Jun-2021 Q1 2022 $	Mar-2021 Q4 2021 $	Dec-2020 Q3 2021 $	Sep-2020 Q2 2021 $	Jun-2020 Q1 2021 $	Mar-2020 Q4 2020 $	Dec-2019 Q3 2020 $
Balance sheet								
Working capital surplus (deficiency)	(1,641,158)	20,410,991	20,401,475	20,351,192	17,601,504	18,365,074	(993,456)	18,119,252
Term debt, lease liabilities and debentures payable	27,121,527	26,943,179	26,897,902	25,606,250	22,482,868	22,851,385	22,284,817	21,520,150
Total equity	17,135,698	17,999,442	18,187,297	19,443,352	19,781,906	20,102,264	20,445,742	21,946,546
Income statement								
Revenue	7,144,174	7,372,807	5,363,358	6,964,106	7,192,922	6,030,128	5,386,592	6,901,517
Gross margin	2,719,618	3,085,178	1,732,970	2,909,327	3,090,358	2,794,607	2,039,190	2,999,783
EBITDA	(208,338)	407,304	(477,770)	211,415	754,903	358,731	(748,041)	(338,409)
Adjusted EBITDA	(208,338)	407,304	(575,963)	322,367	776,934	506,712	(422,375)	(257,037)
Net loss	(1,035,479)	(354,092)	(1,411,045)	(482,832)	(379,016)	(362,320)	(1,583,226)	(1,314,052)
Basic and diluted loss per share	(0.005)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.008)	(0.008)

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

RESULTS OF OPERATIONS

	Q2 2022	YTD 2022	Q2 2021	YTD 2021
Revenue	**$ 7,144,174**	**$ 14,516,981**	$ 7,192,922	$ 13,223,050
Cost of sales	**4,424,556**	**8,712,186**	4,102,563	7,334,204
Gross margin	**2,719,618**	**5,804,795**	3,090,359	5,888,846
Gross margin (% of revenue)	**38.1%**	**40.0%**	43.0%	44.5%
Selling, general and administration expenses	**2,927,956**	**5,605,830**	2,335,456	4,775,212
SG&A expenses (% of revenue)	**41.0%**	**38.6%**	32.5%	36.1%
EBITDA	**(208,338)**	**198,965**	754,903	1,113,634
Interest	**281,445**	**545,198**	231,583	441,812
Depreciation and amortization	**392,678**	**731,540**	217,577	633,563
Financing costs	**41,703**	**71,750**	161,087	237,082
Income (loss) from operations	**(924,164)**	**(1,149,523)**	144,656	(198,823)
Restructuring charges	**-**	**-**	533,380	533,380
Share based compensation	**171,734**	**337,972**	12,323	31,164
Unrealized gain on derivative liability	**(8,205)**	**(26,739)**	-	-
Gain on disposition of right-of-use assets	**(52,214)**	**(71,185)**	(22,031)	(22,031)
Net loss and comprehensive loss	**$ (1,035,479)**	**$ (1,389,571)**	$ (379,016)	$ (741,336)

Revenue for Q2 2022 was $7.1 million, a decrease of $0.1 million from $7.2 million in Q2 2021. Winery revenue for Q2 2022 was $3.7 million, an increase of $0.4 million from $3.3 million in Q2 2021, specifically related to increased operations of most private retail and on-premise accounts nationally as a result of partial removal of government-imposed restrictions from COVID-19. Agency revenue for Q2 2022 was $3.4 million, a decrease of $0.5 million from $3.9 million in Q2 2021, due to a combination of delayed orders by provincial retailers in commission markets, slowing growth in most provincial retail segments and supply chain delays in Western Canada.

The Company defines gross margin as gross profit excluding depreciation. Gross margin for Q2 2022 was $2.7 million, a decrease of $0.4 million from $3.1 million in Q2 2021, while gross margin as a percentage of revenue was 38.1% for Q2 2022 compared to 43.0% in Q2 2021. The gross margin of the winery business remained constant at $1.5 million year over year. The gross margin of the agency business decreased by $0.4 million due to higher product costs and sales mix based on available supply. Overall, there has continued to be a shift in the sales mix from commission to buy/sell markets and to higher volume, lower priced and lower margin brands as consumers curb spending during the pandemic and look to less costly brand alternatives.

Total SG&A expenses for Q2 2022 were $2.9 million, an increase of $0.6 million, or 26.1%, from $2.3 million in Q2 2021. The change is mostly attributable to (i) an increase in employee compensation of $0.4 million, which resulted from a period-over-period reduction in the federal government's CEWS program benefit of $0.3 million and more employees working full-time hours in Q2 2022 relative to staffing levels maintained in Q2 2021 during the initial COVID-19 lockdowns, and (ii) an increase in advertising and promotion of $0.2 million as marketing campaigns previously deferred due to COVID-19 were started up again. During Q2 2022, share based compensation increased by approximately $0.2 million due to reversal of unvested portion of previous accruals upon departure of senior staff from the Company in Q2 2021.

Interest expense for Q2 2022 of $0.3 million was up compared to $0.2 million in Q2 2021 as a result of interest on the BCAP loan and the convertible debentures.

Depreciation and amortization expense for Q2 2022 was $0.4 million, an increase of $0.2 million from $0.2 million in Q2 2021. The decrease is mainly attributable to the increase in depreciation expense capitalized to inventory during Q2 2021.

Loss from operations for Q2 2022 was $0.9 million compared to income from operations of $0.1 million in Q2 2021, a decrease in profitability of $1.0 million attributable to the decrease in gross margin of $0.4 million and the increase in SG&A expenses of $0.6 million noted above.

LIQUIDITY AND CAPITAL RESOURCES

	September 30, 2021	March 31, 2021
ASSETS		
Accounts receivable	**$ 3,704,403**	$ 2,684,546
Inventory	**23,556,450**	23,418,282
Prepaid expenses	**348,889**	254,101
Biological assets	**26,273**	-
Total current assets	**27,636,015**	26,356,929
Property, plant and equipment	**17,478,523**	17,697,058
Right of use assets	**3,088,748**	3,180,600
Intangible assets	**2,483,310**	2,585,404
Total assets	**$ 50,686,596**	$ 49,819,991
LIABILITIES		
Accounts payable and accrued liabilities and other	**$ 6,315,042**	$ 4,734,792
Current portion of term loans payable and lease liabilities	**22,962,131**	1,220,662
Total current liabilities	**29,277,173**	5,955,454
Term loans payable, net of current portion	**-**	22,990,244
Finance leases, net of current portion	**2,544,052**	2,686,996
Debentures payable	**1,615,344**	-
Derivative liability	**114,329**	-
Total liabilities	**33,550,898**	31,632,694
SHAREHOLDERS' EQUITY	**17,135,698**	18,187,297
	$ 50,686,596	$ 49,819,991

On October 26, 2020, the Company entered into an Amended and Restated Credit Agreement ("ARCA") to replace the original the BMO credit agreement dated September 29, 2017. The ARCA was amended on March 26, 2021 (the "First Amendment to the ARCA") and further amended on June 29, 2021 (the "Second Amendment to the ARCA"), under which the expiry date was extended to October 1, 2022. The ARCA is guaranteed by a general security agreement covering the assets of the Company and its subsidiaries.

Working capital was negative $1.6 million as at September 30, 2021, a decrease of $22.0 million from the $20.4 million balance as at March 31, 2021. For the rolling twelve-month period ended September 30, 2021, the Company was in breach of its fixed charged covenant ratio. This covenant breach has required the non-current portion of the BMO term loans of $22,509,859 to be classified as a current liability under IFRS as at September 30, 2021. The covenant breach has been cured as of October 6, 2021 with proceeds of the equity raise, as allowed under the current banking agreement. The Company was in compliance with its other covenants as at September 30, 2021. On a pro-forma basis (after giving effect to the EBITDA adjustment), the working capital as at September 30, 2021 is $19.8 million, a decrease of $0.6 million from the $20.4 million balance as at March 31, 2021.

Accounts receivable of $3.7 million as at September 30, 2021 increased by $1.0 million from $2.7 million as at March 31, 2021 due to the increase and timing of licensee and export sales.

The inventory balance was $23.6 million as at September 30, 2021, a decrease of $0.2 million from $23.4 million as at March 31, 2021. With the forecasted increase in demand for the Company's winery brands coincident with market expansion and retail modernization, the Company continues to hold higher inventories of bulk and finished goods in anticipation of those expanded sales.

Property, plant and equipment of $17.5 million as at September 30, 2021 decreased by $0.2 million from $17.7 million as at March 31, 2021. The decrease was the net of (i) additions of $0.2 million, less (ii) depreciation of $0.4 million.

Right-of-use assets of $3.1 million as at September 30, 2021 decreased slightly from $3.2 million as at March 31, 2021, reflecting depreciation of $0.1 million.

Accounts payable and accrued liabilities of $6.3 million as at September 30, 2021 increased by $1.6 million from $4.7 million as at March 31, 2021 due to a seasonal harvest accrual of $1.4 million.

The BMO credit facilities are governed under the terms of the ARCA and include the BCAP term loan, an existing non-revolving term loan, a revolving operating line, the total of which was $22.5 million as at September 30, 2021, a decrease of $1.3 million from $23.8 million as at March 31, 2021. The existing term loan balance declined by $0.3 million to $8.2 million as a result of quarterly scheduled repayments, while the operating line balance decreased by $1.1 million to $11.5 million, mostly from application of the proceeds from the debenture payable (*see discussion below*).

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

The Company's debt to equity ratio increased slightly to 1.59:1 as at September 30, 2021 from 1.48:1 as at March 31, 2021, where debt is defined as total liabilities less accounts payable and accrued liabilities, and equity is defined as shareholders' equity. This increase is due to the net of the debentures proceeds less the portion used to pay down the Company's operating line.

CAPITALIZATION

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

	November 23, 2021	September 30, 2021	March 31, 2021	Change in reporting period
Common shares	27,876,044	200,005,566	200,005,566	-
Stock options	1,710,000	15,600,000	15,100,000	500,000
Deferred share units	296,420	2,964,198	2,647,637	316,561
Warrants	3,689,949	750,000	750,000	-
Broker units	163,681	-	-	-
Total equity instruments	33,736,094	219,319,764	218,503,203	816,561

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

<u>Common shares</u>

The Company did not issue any common shares during YTD 2022.

As a result of the acquisitions and financings discussed above and the 10 for 11 share consolidation, the Company's issued and outstanding common shares changed subsequent to September 30, 2021, as follows:

Issued and outstanding as of September 30, 2021	200,005,566
Issued with respect to Equity Wine Acquisition	30,555,557
Issued on conversion of debentures payable	10,495,342
Issued as a result of the Financing	37,703,975
Balance before share consolidation	278,760,440
Effect of 10 for 1 consolidation	250,884,396
Issued and outstanding as of November 23, 2021	27,876,044

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

<u>Stock options</u>

On May 17, 2021, the Board of Directors authorized the issuance of 500,000 stock options to a key member of management. The options are exercisable at $0.20 each, have a term of 5 years, and vest as to 25% per year on each anniversary date over the next 4 years. On August 24, 2021, the Board of Directors authorized the further issuance of 1,000,000 stock options to other members of management. The options are exercisable at $0.18 each, have a term of 5 years, and vest as to 25% per year on each anniversary date over the next 4 years.

During the six month period ended September 30, 2021, a total of 1,000,000 options expired unexercised on the departure of members of management.

Deferred share units

On May 17, 2021, the Company issued an aggregate of 169,688 DSUs in settlement of $33,938 of deferred directors' compensation. On July 26, 2021, the Company issued an aggregate of 146,873 DSUs in settlement of $26,438 of deferred directors' compensation.

NON-IFRS FINANCIAL MEASURES

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

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

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

The Company calculates gross margin as follows:

	Q2 2022	**YTD 2022**	Q2 2021	YTD 2021
	$	**$**	$	$
Revenue	**7,144,174**	**14,516,981**	7,192,922	13,223,050
Cost of sales				
Change in inventories of finished goods and raw materials consumed	**4,424,556**	**8,712,186**	4,102,563	7,334,204
Depreciation	**208,789**	**321,008**	43,358	229,792
Gross profit	**2,510,829**	**5,483,787**	3,047,001	5,659,054
Exclude depreciation	**208,789**	**321,008**	43,358	229,792
Gross margin	**2,719,618**	**5,804,795**	3,090,359	5,888,846
Gross margin (% of revenue)	**38.1%**	**40.0%**	43.0%	44.5%

The Company calculates EBITDA and Adjusted EBITDA as follows:

	Q2 2022	**YTD 2022**	Q2 2021	YTD 2021
	$	**$**	$	$
Net loss for period	**(1,035,479)**	**(1,389,571)**	(379,016)	(741,336)
Interest	**281,445**	**545,198**	231,583	441,812
Depreciation and amortization	**392,678**	**731,540**	217,577	633,563
Share-based compensation	**171,734**	**337,972**	12,323	31,164
Restructuring charges	**-**	**-**	533,380	533,380
Financing costs	**41,703**	**71,750**	161,087	237,082
Gain on disposition of right-of-use assets	**(52,214)**	**(71,185)**	(22,031)	(22,031)
Unrealized gain on derivative liability	**(8,205)**	**(26,739)**	-	-
EBITDA	**(208,338)**	**198,965**	754,903	1,113,634
Inventory adjustment	**-**	**-**	-	147,894
Adjusted EBITDA	**(208,338)**	**198,965**	754,903	1,261,528

SUBSEQUENT EVENTS

On October 6, 2021, the Company closed on numerous purchase agreements and financings, as discussed in the "Purchase Agreements and Financings" section above.

On October 26, 2021, the Company issued 1,500,000 stock options to a key member of management. The options have an exercise price of $0.18 and a term of 5 years, vesting as to 25% per year on each anniversary date over the next 4 years.

On November 10, 2021, the Company announced implementation of the consolidation of its share capital on a 10 for 1 basis, consolidating its currently issued and outstanding shares to 27,876,044 *(see further discussion under "Capitalization" section above).*

STRATEGIC OUTLOOK AND DIRECTION

Diamond is committed to building enduring, high quality beverage alcohol brands that enhance life enjoyment in a socially responsible manner. The Company believes in the development of leading brands that recognize consumers' interests in wine, beer and ready-to-drink beverages and spirits, while addressing their desire to explore the many of the Company's exciting offerings. The Company has also added low alcohol and no-alcohol beer and wine suppliers to its portfolio, as consumer interest and demand in those categories is growing. Vertically integrated, Diamond combines modern and efficient production facilities for its Niagara and B.C wines with a national marketing agency for its broad portfolio of leading international wines and spirits. The Company is well positioned to add to its throughput of wine production and leverage its national sales force to drive growth from existing brands and support new brands secured by the agency without material change to its cost structure. In addition to this, the Company's partnership with Lassonde Industries Inc. has enabled the Company to pursue its growth strategies, and access to a reputable national sales team that can build and expand the Company's market share in grocery stores across Canada.

Over the past 18 months, the COVID-19 pandemic continues to have a material impact on the global economy, the scale and duration of which remains uncertain. To date, there has been significant volatility in foreign exchange rates, restrictions on the conduct of businesses, including travel restrictions and supply chain disruptions.

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

In order to adapt to this new reality, the Company's retail operations have changed with the introduction of physical distancing, reduced density and a modified shopping experience in all retail locations. This includes touchless retail, limited product tastings and greater use of external physical resources (patios, event canopies and outdoor venues).

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

The retail modernization of the sale of beverage alcohol in Ontario continues to be a high priority for the provincial government. To date, the government has issued 450 beer licenses and 226 wine licenses to Ontario grocers and has reiterated its commitment to allowing the sale of beer and wine in grocery, big-box and convenience stores during their current mandate. The current focus of the government on managing the issues related to COVID-19 pandemic and opposition from the incumbent Brewer's Retail organization has slowed the expansion of the government's plans.

The Company has seen improvement in the export market for Canadian wines as the COVID-19 pandemic begins to subside worldwide. We firmly believe a return to more normal volumes and growth can be anticipated in the near future. Interest in and appreciation of Canadian Icewine and table wines remains high. The company continues to successfully expand distribution into several new jurisdictions including Russia, Finland, USA, Thailand, Singapore, Vietnam and Taiwan.

RECENTLY ADOPTED AND ISSUED ACCOUNTING PRONOUNCEMENTS

IFRS 16 "Leases"

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

IAS 16 "Property, Plant and Equipment"

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

IAS 37 "Provisions"

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

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

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

IAS 12 "Income Taxes"

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