DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2019 AND 2018

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the three and nine month period ended December 31, 2019 ("Q3 2020" and "YTD 2020", respectively) compared with the corresponding period ended December 31, 2018 ("Q3 2019" and "YTD 2019" respectively). This discussion is prepared as of February 21, 2020 and should be read in conjunction with the (i) unaudited interim condensed financial statements and accompanying notes of Diamond for Q3 2020, and (ii) both the audited consolidated financial statements and MD&A for the fiscal years ended March 31, 2019 and March 31, 2018 (herein referred to as fiscal 2019 and fiscal 2018 respectively). All note references are made in reference to these consolidated financial statements. 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 global financial crisis, 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. Additional factors are noted in this MD&A under "Risk Factors".

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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 wholly owned subsidiary, Trajectory Beverage Partners, the Company is the sales agent for many leading international brands in all regions of the country as well as being a distributor in the western provinces. These recognizable brands include Josh wines from California, Fat Bastard and Andre Lurton wines from France, Kaiken wines from Argentina, Blue Nun wines from Germany, Francois Lurton wines from France and Argentina, Felix Solis wines from Spain, Waterloo Brewing and Amsterdam Brewery, both from Canada, Landshark Lager from the USA, Marston's beers from England, Social Lite vodka sodas from Canada, Edinburgh Gin from Scotland, Tamdhu, Glengoyne and Smokehead single-malt Scotch whiskies, Barcelo Rum from the Dominican Republic, Five Farms Irish Cream from County Cork Ireland, Tequila Rose Liqueur from McCormick Distilling in the USA, Charles Mondavi & Family wines including Charles Krug from Napa, Bols Vodka from Amsterdam, Brokers Gin from the UK, Koyle Family Wines from Chile, Pearse Lyons whiskies and gins from Ireland, Niagara Craft Distillers' beverages from Ontario, Octavia Vodka from British Columbia, Fontana di Papa wines from Italy, and Castoro de Oro wines from British Columbia.

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 significant participant in the export market expanding its focus beyond China, where acceptance of Canadian wine remains strong, to include the UK, Germany, Spain, Austria, Japan, Mexico, Korea and Russian markets. Canadian wines and particularly Icewines enjoy a premium product positioning with consumers in these countries.

The Company is committed to achieving its sales objectives through its distribution network focused on the provincial liquor boards, licensed restaurants and bars, grocery chains, Diamond's two retail locations, and export channels. The Company has a total workforce of approximately 113 full-time employees, including 40 engaged in the selling and marketing of its brands, 30 in the manufacturing and distribution of its brands, 18 involved in the retailing of its domestic products through its retail facilities and 25 in accounting and administration, including the senior officers. The Company also uses several independent representatives that are compensated by commissions to sell its products in the licensee channel.

RECENT EVENTS

The Ontario Government continued with its commitment to expand beer and wine into 87 additional stores commencing in late September 2019 with a majority opened prior to December 31st, 2019; the remaining openings have all been completed as of February 2020.

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Q3 2020 HIGHLIGHTS

- Revenue of $6.9 million declined 7% from $7.4 million in Q3 2019 as a result of continued softness in sales with the Company's primary Chinese export customer, and the loss of Q3 2019 revenues associated with agency suppliers that the company no longer represents. These factors continue to overshadow the continuing strong performance in winery sales primarily to Licensee, and Contract customers, as well as both organic growth and new supplier acquisition in the agency business;

- Gross margin was $3 million, essentially flat to Q3 2019. Gross margin as a percentage of revenue was also favourable at 43.5%, an increase from 40.8% in Q3 2019. This increase was primarily driven by timing of the annual rebate received in support of the Ontario VQA programme and a shift in winery sales channel mix from Export to Retail, Licensee, and Contracts;

- EBITDA was negative $0.4 million, compared to negative $0.2 million in Q3 2019 with the shortfall resulting from higher SG&A expenses driven mainly by promotional expenditure to support expansion of the Ontario Grocery channel and one time accrual reversals in Q3 2019;

- Net loss was $1.3 million, compared to a net loss of $1.1 million in Q3 2019;

- Cash flow from operating activities for YTD 2020, before changes in non cash working capital items, was negative $0.9 million, a decrease of $1 million compared to $0.1 million in YTD 2019. The primary driver for the decline is the year-to-date increase in net losses by $1.2 million;

- Working capital was $18.1 million as at December 31, 2019, an increase of $3.2 million from the $14.9 million balance at March 31, 2019. The increase is primarily a result of higher bulk wine inventory levels resulting from the annual harvest. In addition to this, settlement of the note payable in Q2 2020 pertaining to the BC Vineyard acquisition (Back Yard Vineyards or BYV) in June 2018, and a reduction in accounts payable and accrued liabilities also contributed to the increase compared to March 31, 2019;

- On October 30, 2019, the Company closed a second private placement offering (the "Private Placement") of 12.2 million common shares ("Common Shares") at a price of $0.19 per Common Share for total gross proceeds of $2.3 million. Directors, officers and other insiders of the Company subscribed for $0.7 million worth of Common Shares in the Private Placement. The Private Placement was comprised of a brokered offering of 6.5 million Common Shares (the "Brokered Offering"), and a non brokered offering of 5.7 million Common Shares (the "Non Brokered Offering"). This follows the previously disclosed private placement with Lassonde Industries Inc. ("Lassonde") completed in Q2 2020 in which 36.9 million common shares were issued at $0.19 per share for gross proceeds of $7 million, and net proceeds of $6.1 million;

- In October, the Company followed through on previously announced plans to close its Toronto winery; the effect of this on Q3 2020 margin and EBITDA was minimal. The Company continues to look for opportunities to redeploy the assets to endeavors which yield higher margin returns;

- The 2019 harvest was completed in the quarter with both wineries taking in a combined 2,800 tonnes of grapes yielding 2.2 million litres of bulk wine. This is an increase of 500 tonnes from the 2018 harvest, and positions the company well to compete in the expanding Ontario Grocery channel;

- The Company continues to leverage its national footprint as a result of the BYV acquisition through new business wins in the high margin Licensee channel bringing expanded distribution with domestic and partner brands across British Columbia, Alberta and Ontario;

- The Company maintained its strong position in the emerging Ontario Grocery channel amongst VQA wines with 20Bees and EastDell brands representing five of the top 10 selling stock keeping units ("SKU's"), and with the former holding four the top ten positions overall. Year over year growth continues at 24.3%. One of the flagship brands within the agency division, JOSH Cellars, is proving to be successful in the Grocery channel with JOSH Cabernet Sauvignon moving to the top selling imported red wine over $15;

QUARTERLY PERFORMANCE (UNAUDITED)

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

	Dec-2019 Q3 2020 $	Sep-2019 Q2 2020 $	Jun-2019 Q1 2020 $	Mar-2019 Q4 2019 $	Dec-2018 Q3 2019 $	Sep-2018 Q2 2019 $	Jun-2018 Q1 2019 $	Mar-2018 Q4 2018 $
Balance sheet								
Working capital surplus	18,119,252	14,326,686	14,356,072	14,887,530	17,039,151	15,147,683	14,557,047	13,649,842
Term debt and finance leases	21,520,150	19,266,726	25,274,441	23,141,146	23,554,598	20,983,293	20,633,556	19,870,206
Total equity	21,946,546	20,743,733	14,982,458	15,640,264	17,605,714	18,408,185	18,207,451	16,254,600
Income statement								
Revenue	6,901,517	7,214,799	7,291,322	4,536,520	7,412,303	8,168,951	8,005,329	5,379,083
Gross margin	2,999,783	3,771,820	3,301,771	1,797,361	3,024,156	3,729,894	3,679,176	2,268,204
EBITDA	(405,757)	183,404	98,479	(1,390,145)	(230,565)	316,894	790,465	(753,214)
Adjusted EBITDA	(284,372)	296,427	229,385	(1,093,555)	(150,219)	517,233	740,610	(449,022)
Net (loss) income	(1,314,052)	(476,321)	(812,439)	(2,160,553)	(1,081,611)	(429,548)	400,467	(1,362,867)
Basic (loss) income per share	0.00	0.00	(0.01)	(0.01)	(0.01)	0.00	0.00	(0.01)
Diluted (loss) income per share	0.00	0.00	(0.01)	(0.01)	(0.01)	0.00	0.00	(0.01)

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

RESULTS OF OPERATIONS

	Q3 2020	YTD 2020	Q3 2019	YTD 2019
Revenue	**$ 6,901,517**	**$ 21,407,638**	$ 7,412,303	$ 23,585,981
Cost of sales	**3,901,734**	**11,334,263**	4,388,147	13,152,755
Gross margin	**2,999,783**	**10,073,374**	3,024,156	10,433,226
Gross margin (% of revenue)	***43.5***	***47.1***	*40.8*	*44.2*
Selling, general and administration expenses	**3,405,540**	**10,197,248**	3,254,521	9,556,232
Selling, general and administration expenses (% of revenue)	***49.3***	***47.6***	*43.9*	*40.5*
EBITDA	**(405,757)**	**(123,874)**	(230,365)	876,994
Adjusted EBITDA (see page 17)	**(284,372)**	**241,440**	**(150,219)**	**1,107,624**
Interest	**257,772**	**848,965**	282,575	873,337
Depreciation and amortization	**519,363**	**1,231,805**	375,456	1,135,681
Income tax recovery	**-**	**-**	(19,924)	(75,529)
(Loss) from operations	**(1,182,892)**	**(2,204,644)**	(868,472)	(1,056,495)
Share based compensation	**131,160**	**398,169**	213,139	354,306
Net loss and comprehensive loss	**$ (1,314,052)**	**$ (2,602,813)**	$ (1,081,611)	$ (1,410,801)

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

Revenue for Q3 2020 was $6.9 million, a decrease of $0.5 million, or 7%, from $7.4 million in Q3 2019. The winery division accounted for $0.2 million of the decrease, a result of continued softness in sales to the Company's main Chinese export customer. Partially offsetting this was payment of the annual Ontario VQA programme rebate which for prior year was received in Q2 2019, along with growth in other channels, particularly Contract and Licensee. Other drivers included more intense sales strategies for the BYV brands and strong relationships with chain retailers. The agency division accounted for the remaining $0.3 million decrease which was largely due to a sales mix shift from Buy/Sell to commission as well as lost revenue from suppliers present in Q3 2019 which are no longer represented by the agency. Partially offsetting the shortfall is growth in the western region through channel expansion, organic growth nationally within the existing suppliers and contribution from newly acquired suppliers.

Gross margin which is defined as gross profit excluding depreciation was $3 million for Q3 2020 which was essentially flat to Q3 2019, while gross margin as a percentage of revenue was 43.5% for Q3 2020 compared to 40.8% in Q3 2019. Improvements in margin percentage were driven primarily by favourable winery results. Timing on receipt of the Ontario VQA rebate programme payment contributed approximately 2 percentage points while the remainder resulted from a channel mix shift from Export sales, which were down from 30% of total winery revenues in Q3 2019 to 17% in Q3 2020, to higher margin Retail, Licensee, and Contract sales in Q3 2020. In particular, the Licensee channel continues to perform well with significant wins in both Regional and National Chain accounts.

Included in the gross margin results is the impact of the Company recording an increase to inventory to represent the fair value of goods acquired on the acquisition of Backyard Vineyards totalling $0.1 million in the quarter, down from $0.2 million in Q3 2019. The increase this quarter represents the last of the $0.5 million fair value markup as the Company has sold through all the inventory acquired at acquisition.

Selling, general, and administrative expenses for Q3 2020 totalled $3.4 million, an increase of $0.1 million, or 5%, from $3.3 million in Q3 2019. The increase primarily resulted from a onetime accrual reversal in Q3 2019 pertaining to employee compensation and benefits associated with the company's bonus plan. The remainder of the increase is attributable to incremental advertising and promotional (A&P) investment to enhance brand awareness in support of the continued expansion of the Ontario Grocery channel and financing fees pertaining to the second private placement which closed in October 2020. Offsetting part of the increases was a reclassification of lease expenses to depreciation and interest due to the adoption of IFRS 16 at the beginning of fiscal 2020.

Interest expense for Q3 2020 was $0.3 million which was flat compared to Q3 2019. Lower interest associated with the Company's borrowing facilities was offset by added incremental interest from the adoption of IFRS 16 on April 1, 2019.

Depreciation and amortization expense for Q3 2020 was $0.5 million, an increase of $0.1 million from $0.4 million in Q3 2019. The increase is mainly attributable to the adoption of IFRS 16 as at April 2019 which is offset by a reduction of lease expense in SG&A.

Share based compensation was $0.1 million in Q3 2020, a decrease of $0.1 million compared to Q3 2019. The decrease is largely attributable to the lower number of outstanding share options at the end of Q3 2020 (7.85 million compared to 10.85 million at the end of Q3 2019).

Net loss for Q3 2020 was $1.3 million compared to a net loss of $1.1 million in Q3 2019. Selling, general and administrative ("SG&A") expenditure was the main driver of the decline from the prior year and resulted from investment in above the line (ATL) media spend to enhance brand awareness in support of the continued expansion of the Ontario Grocery channel, and the year over year impact from accrual reversals occurring in Q3 2019 for compensation and benefit related costs.

LIQUIDITY AND CAPITAL RESOURCES

	December 31, 2019	March 31, 2019
Accounts receivable	**$ 2,826,262**	$ 2,906,154
Inventory	**21,186,385**	19,462,687
Prepaid expenses	**380,514**	232,591
Total current assets	**24,393,161**	22,601,432
Property, plant and equipment	**18,286,779**	18,773,456
Intangible assets	**2,902,254**	3,155,141
Right of use assets	**3,276,538**	1,205,150
Total assets	**$ 48,858,732**	$ 45,735,179
Accounts payable and accrued liabilities and other	**$ 5,392,036**	$ 6,403,310
Note payable	**-**	550,000
Current portion of term loans payable and lease liabilities	**881,873**	760,593
Total current liabilities	**6,273,909**	7,713,903
Term loans payable, net of current portion	**17,824,482**	21,536,947
Finance leases, net of current portion	**2,813,795**	844,076
Total liabilities	**26,912,186**	30,094,926
Shareholders' equity	**21,946,546**	15,640,253
	$ 48,858,732	$ 45,735,179

The Company's consolidated financial position has changed significantly from March 31, 2019 to December 31, 2019 due to the adoption of IFRS 16 – Leases and the impact from two private placements occurring fiscal 2020. In adopting IFRS 16 as at April 1, 2019, the Company used the modified retrospective approach under which the cumulative effect of the initial application is recognized in retained earnings at the adoption date. Accordingly, the prior period financial statements (March 31, 2019 above) have not been restated. The overall effect of this change in accounting treatment is an increase to both Assets and Liabilities on the balance sheet (see note 3 of the Q3 2020 financial statements). As a result of two capital raises, one in each of Q2 2020 and Q3 2020, the equity value of the company has also increased. The Company completed a private placement on July 29, 2019 in which 36.9 million common shares were issued from treasury to Lassonde Industries Inc. at $0.19 per share for gross proceeds of $7 million, and net proceeds of $6.1 million. Following this, a second private placement occurred on October 30, 2019, in which 12.2 million common shares were issued from treasury at a price of $0.19 per common share for total gross proceeds of $2.3 million, and net proceeds of $2.1 million.

Accounts receivable of $2.8 million as at December 31, 2019 decreased by $0.1 million, from $2.9 million at March 31, 2019. The decrease is primarily driven by improved collection efforts, as revenues for the third quarter of fiscal 2020 were $2.5 million higher than in the fourth quarter of fiscal 2019. The Company maintains an allowance for doubtful accounts which totalled $0.2 million at the end of Q3 2020, which was flat to $0.2 million at March 31, 2019 and is based on assumptions around risk of default and historical loss rates.

Inventory balance of $21.2 million as of December 31, 2019 increased by $1.7 million from $19.5 million at March 31, 2019. Winery bulk inventory increased by $2.3 million following the fall harvest across the two wineries. Cumulatively, approximately 2.2 million litres of bulk wine were brought in during the harvest season across the two wineries. The agency division reduced total owned inventory by approximately $0.7 million primarily due to sales during the holiday season as well as efforts to reduce excess stock and improve inventory turns.

Prepaid expenses of $0.4 million at December 31, 2019 increased by $0.2 million from $0.2 million at March 31, 2019. The increase was driven in equal parts by prepayment of advertising and promotion campaigns focused on enhancing brand awareness, and investment in winery production equipment, the latter of which is expected to be in use by year end.

Property, plant and equipment of $18.3 million as at December 31, 2019 decreased by $0.5 million from $18.8 million as at March 31, 2019 due to depreciation expenses of $0.5 million.

Right of use assets of $3.3 million as at December 31, 2019 include $2.2 million in additions resulting from the adoption of IFRS 16 which are incremental to the March 31, 2019 balance of $1.1 million *(see note 3 of the Q3 2020 financial statements)*.

Intangible assets of $2.9 million as at December 31, 2019 decreased by $0.3 million from $3.2 million at March 31, 2019, with the reduction due to the amortization of the assets.

Accounts payable and accrued liabilities of $5.3 million as at December 31, 2019, decreased by $1 million from $6.3 million as at March 31, 2019. The decrease primarily consists of $0.4 million for accrued rent charges settled during the period and $0.4 million in accrued severance from restructuring, mainly relating to fiscal 2019, which were paid out between Q1 2020 and Q3 2020. The remaining reduction relates to GST associated with the sale and lease back of winery equipment which was accrued at March 31, 2019 and paid in Q1 2020.

The Company's credit facilities include a non revolving term loan and a revolving operating line, with an outstanding total amount of $18.3 million as at December 31, 2019, a decrease of $3.7 million from $22 million at March 31, 2019. The term loan balance reduced by $0.4 million to $9 million as a result of quarterly scheduled repayments, while the operating line balance reduced by $3.4 million to $9.3 million due to the application of proceeds, net of financing fees of the two private placements in July 2019 and October 2019. Offsetting part of this was the settlement of the note payable in July 2019 associated with the acquisition of the BC winery for $0.55 million, and reduction in accounts payable and accrued liabilities.

The working capital balance of $18.1 million as at December 31, 2019 increased by $3.2 million from $14.9 million as at March 31, 2019. The increase is mainly a result of higher inventory due to the Q3 harvest, reduction of accrued liabilities, as well as the settlement of the note payable.

The Company's debt to equity ratio decreased to 0.98:1 as at December 31, 2019 from 1.51:1 as at March 31, 2019, where debt is defined as total liabilities less other current liabilities, and equity is defined as shareholders' equity. This is a result of a reduction in debt due to proceeds from the two private placements, partially offset by an increase in lease liabilities as a result of the adoption of IFRS 16.

CAPITALIZATION

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

	December 31, 2019	March 31, 2019	Change in period
Common shares	200,005,566	148,511,746	51,493,820
Deferred share units	1,703,957	1,622,000	81,957
Stock options	7,850,000	11,850,000	(4,000,000)
Total equity instruments	209,559,523	161,983,746	47,575,777

The changes to the Company's overall capitalization during the third quarter of the fiscal year 2020 were as follows:

- On November 11, 2019, 2,000,000 of the stock options originally granted on November 10, 2014 were exercised at the purchase price of $0.12 for total proceeds of $240,000;
- On October 30, 2019, the company closed its previously announced private placement offering of 12,233,805 common shares at a price of $0.19 per Common Share for total gross proceeds of $2,324,423, less issuance costs of $205,121, for net proceeds of $2,119,302;
- During the third quarter of fiscal 2020, a total of 450,000 options, initially granted on October 1, 2018, expired unexercised on the departure of an executive of the Company;
- On October 19, 2019, the company issued an aggregate of 185,255 DSU's to non executive directors under the DSU plan in settlement of $36,125 of deferred directors' compensation;

STRATEGIC OUTLOOK AND DIRECTION

Diamond is committed to building enduring, high quality beverage alcohol brands that enhance life enjoyment in a socially responsible manner. The Company believes in the development of leading brands that recognize consumers' interests in wine, beer, ready to drink beverages and spirits, while addressing their desire to explore the many exciting offerings that the Company has available. 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 recently announced partnership with Lassonde Industries provides additional capital to enable the Company to pursue its growth strategies, and access to a proven national sales team that can build and expand the Company's market share in grocery stores across Canada.

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.

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.

PROFITABILITY

There is no assurance that Diamond will earn profits in the future, or that profitability will be sustained. There is no assurance that future revenues will be sufficient to generate the funds required to continue Diamond's business development and marketing activities. If Diamond does not have sufficient capital to fund its operations, it may be required to reduce its sales and marketing efforts or forego certain business opportunities.

DEPENDENCE ON MANAGEMENT AND KEY PERSONNEL

Diamond will depend on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term. Diamond's success will depend in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects. The contributions of the existing management team to the immediate and near term operations of Diamond are likely to be of central importance. In addition, the competition for qualified personnel in the industry is competitive and there can be no assurance that Diamond will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Diamond.

GOVERNMENT REGULATION OF LIQUOR INDUSTRY

Diamond will operate in the highly regulated retail liquor industry in the Province of Ontario and throughout Canada. The Alcohol and Gaming Commission of Ontario (the "AGCO"), the Liquor Control Board of Ontario (the "LCBO") and similar Liquor Boards throughout Canada, may issue decisions, enact rules, new legislation or regulations or may make changes to existing legislation or regulations, all of which can impact the operation of Diamond both favourably and unfavourably. There is no assurance that new legislation or regulations or changes to existing legislation or regulations or decisions of any regulatory bodies in the retail liquor industry in Canada will not adversely affect the operations, profitability, or distributable cash of Diamond.

SIGNIFICANT COMPETITION

The alcoholic beverage industry in Canada is intensely competitive, consisting of many large and small Canadian corporations and international corporations with some possessing extensive experience and financial resources.

MANAGEMENT OF GROWTH

Diamond may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Diamond to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Diamond to deal with this growth may have a material adverse effect on Diamond's business, financial condition, results of operations and prospects.

ISSUANCE OF DEBT

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, profitability, and/or distributable cash 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 enables Diamond to continue to supply wines to the market. There is no certainty that such intervention will be available to the same extent in the future, if at all. The inability to secure premium quality grapes could impair the ability of Diamond to supply wines to its customers.

FOREIGN EXCHANGE

Foreign exchange risk exists on the purchases of all agency brand inventories purchased in foreign currencies for British Columbia and Alberta, which are predominately in Euros and Australian dollars. Diamond currently does not enter into foreign exchange contracts.

ENERGY COSTS

Diamond could experience an increase in energy costs which could result in higher transportation, freight and other operating costs. Diamond's future operating expenses and margins will be dependent on its ability to manage the impact of cost increases. Diamond cannot guarantee that it will be able to pass along increased energy costs to its customers through increased prices.

TAXATION

Canada imposes excise and other taxes on beverage alcohol products in varying amounts which have been subject to change. Significant increases in excise and other taxes on beverage alcohol products could materially and adversely affect Diamond's financial condition or results of operations. In addition, federal and provincial governmental agencies extensively regulate the beverage alcohol products industry concerning such matters as licensing, trade practices, permitted and required labelling, advertising and relations with consumers and retailers. Certain federal and provincial regulations also require warning labels and signage. New or revised regulations or increased licensing fees, requirements or taxes could also have a material adverse effect on Diamond's financial condition or results of operations.

TRADEMARKS

Diamond considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design and artwork to be of significant importance to its business and ascribes a significant value to these intangible assets. Diamond will rely on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by Diamond to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. Diamond believes that its proprietary rights do not infringe upon the proprietary rights of third parties, but there can be no assurance in this regard.

IMPORTANCE OF INVENTORY, WAREHOUSE AND DISTRIBUTION SYSTEMS

Diamond's inventory, warehouse and distribution systems are critical components of its operations. Diamond's ability to maintain and upgrade the capabilities of these systems is important to its future performance. If Diamond is unable to maintain the inventory, warehouse and distribution systems or fails to adequately upgrade these systems, Diamond's operations could be adversely affected with the further material adverse effect being on financial results of operations.

WHOLESALE COST INCREASES

Wholesale costs are dependent on a number of factors, including inflation and fuel prices. Any attempt to pass on an increase in wholesale costs to consumers through product price increases could have a material adverse effect on Diamond's sales while a failure to effectively pass any such increases on to consumers could have a material adverse effect on Diamond's result of operations.

DISTRIBUTION BUSINESS

Diamond's business model includes a number of wine and alcohol brands that are represented on an agency basis. There is a risk that such agency brands are sold to an entity that has a pre-existing distribution agency relationship with a provider other than Diamond, and Diamond's revenues and profitability could suffer as result. Furthermore, Diamond's distribution business depends on the ability to retain its current brands as well as attracting additional brands in the future, and a failure to do so could negatively impact revenues and profitability of Diamond.

CREDIT RISK

Credit risk arises from credit exposure to customers through outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the Company's financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of its counterparties, taking into account 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. Either way, management believes that the Company is well positioned to deal with this or other changes to the competitive landscape in Canada.

HEALTH EPIDEMICS

Continued globalization increases the Company's reliance on export sales as a source of revenue and profitability while also exposing the Company to manufacturing input risks in its winery operations and import product supply risks in its distribution business. In circumstances where health epidemics arise, Diamond monitors the global economic environment with particular focus on regions where the Company currently conducts business in order to stay abreast of current government and consumer actions which could interrupt supply or demand for Diamonds winery products. Management is of the opinion that the risk to production and import product sales is minimal while risk to export sales is fully dependent on the region(s) afflicted with a particular health epidemic.

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 established and 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 does not develop, 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.

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 "EBITDA" and "Adjusted EBITDA" as a measure to assess performance of the Company. 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 measure to further assist readers in assessing the Company's ability to generate income from operations before taking into account 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 EBITDA and Adjusted EBITDA as follows:

	Q3 2020	**YTD 2020**	**Q3 2019**	**YTD 2019**
	$	**$**	**$**	**$**
Net (loss)	**(1,314,052)**	(2,602,813)	**(1,081,611)**	(1,410,801)
Add: Interest on long-term debt	**257,772**	848,965	**282,575**	873,337
Depreciation on property, plant and equipment used in production	**287,604**	580,165	**178,364**	580,112
Depreciation on property, plant and equipment used in selling and administration	**147,328**	398,346	**110,034**	296,148
Amortization on intangible assets	**84,431**	253,294	**87,058**	259,421
Share-based compensation	**131,160**	398,169	**213,139**	354,306
Income tax recovery	**-**	-	**(19,924)**	(75,529)
EBITDA	**(405,757)**	(123,874)	**(230,365)**	876,994
Cost of goods sold adjustments for fair value of BYV inventories sold	**54,037**	243,627	**46,520**	225,192
Acquisition costs	**-**	-	**-**	70,617
Warehousing cost recovery	**-**	-	**-**	(49,506)
Financing costs	**67,348**	121,687	**-**	-
Severance and related costs included in employee compensation and benefits and professional fees	**-**	-	**33,626**	33,626
QST recovery	**-**	-	**-**	(49,299)
Adjusted EBITDA	**(284,372)**	**241,440**	**(150,219)**	**1,107,624**

USES OF ESTIMATES AND JUDGEMENTS

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period.

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

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 represent a significant proportion of the asset base of the Company as they amount to 44.5% of total assets which includes the ROU asset portion as at December 31, 2019 (March 31, 2019 - 43.7%). Therefore, estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance. IFRS requires management to test for impairment of property, plant and equipment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. The useful lives and residual values of the Company's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life.

GROSS VERSUS NET PRESENTATION

When deciding the most appropriate basis for presenting revenue or costs of revenue, both the legal form and substance of the agreement between the Company and its business partners are reviewed to determine each party's respective role in the transaction. Where the Company's role in a transaction is that of principal, revenue is recognized on a gross basis. This requires revenue to comprise the gross value of the transaction billed to the customer, after trade discounts, with any related expenditure charged as an operating cost. Where the Company's role in a transaction is that of an agent, revenue is recognized on a net basis with revenue representing the margin earned.

USEFUL LIFE OF INTANGIBLE ASSETS

Significant judgement is involved in the determination of useful life for the computation of depreciation of intangible assets. No assurance can be given that actual useful lives will not differ significantly from current assumptions.

IMPAIRMENT OF INTANGIBLE ASSETS

Testing intangible assets for impairment involves estimating the recoverable amount of the CGUs to which intangible assets are allocated. This requires making assumptions about future cash flows, growth rates, market conditions and discount rates, which are inherently uncertain. Actual amounts may vary from these assumptions and cause significant adjustments. Management has concluded that a 10% change in any key assumption in the impairment test of intangible assets would not result in an impairment of intangible assets as at March 31, 2017 and March 31, 2016.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

IFRS 9: "Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities" was issued by the IASB in July, 2014 and replaced IAS 39 "Financial Instruments: Recognition and Measurement". In addition, IFRS 7 "Financial Instruments: Disclosures" was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The new standard was adopted effective April 1, 2018 using a modified retrospective approach and resulted in the reclassification of the Company's financial assets previously classified as loans and receivables to financial assets at amortized cost. The adoption did not have a significant impact on the consolidated financial statements.

IFRS 15: "Revenue from Contracts with Customers" was issued by the IASB in May, 2014 and supersedes IAS 18 "Revenue" and IAS 11 "Construction Contracts". The standard details a revised model for the recognition of revenue from contracts with customers. The standard is effective for first interim periods within annual periods beginning on or after January 1, 2018. The Company has adopted the accounting standard effective April 1, 2018, using a full retrospective approach and the adoption did not have a significant impact on the consolidated financial statements.

IFRS 16: "Leases" was issued by the IASB in January 2016 and will ultimately replace IAS 17, "Leases" and related interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all leases contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company has adopted the accounting standard effective April 1, 2019, using the modified retrospective approach applying the following practical expedients: (i) grandfather the assessment of which transactions are leases; (ii) recognition exemption of short-term leases; and (iii) recognition exemption leases of low value items. The cumulative effect of initial application is recognized in retained earnings at April 1, 2019. Accordingly, the prior period financial information has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.