

DIAMOND ESTATES WINES & SPIRITS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

THREE AND NINE MONTHS ENDED DECEMBER 31, 2025 AND 2024

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The following management discussion and analysis ("MD&A") of Diamond Estates Wines & Spirits Inc. ("Diamond" or "the Company") provides a review of corporate developments, results of operations and financial position for the three and nine months ended December 31, 2025 ("Q3 2026" and "YTD 2026" respectively) compared with the corresponding periods ended December 31, 2024 ("Q3 2025" and "YTD 2025" respectively). This discussion is prepared as of February 24, 2026 and should be read in conjunction with (i) the unaudited interim condensed consolidated financial statements and the accompanying notes for the three and nine months ended December 31, 2025 and 2024, and (ii) the audited consolidated financial statements and MD&A for the fiscal years ended March 31, 2025 ("FY 2025") and March 31, 2024 ("FY 2024"). 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, which is the Company's functional currency.

FORWARD-LOOKING STATEMENTS

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

Detailed information on risks and uncertainties is provided in the "Uncertainties and Principal Risk Factors" section of the annual MD&A for the year ended March 31, 2025.

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COMPANY OVERVIEW

Diamond Estates Wines and Spirits Inc. is a producer of high-quality wines and ciders as well as a sales agent for over 120 beverage alcohol brands across Canada. The Company operates four facilities, three in Ontario and one in British Columbia, that produce predominantly VQA wines under such well-known brand names as 20 Bees, Creekside, D'Ont Poke the Bear, EastDell, Lakeview Cellars, Mindful, Shiny Apple Cider, Fresh Wines, Red Tractor, Seasons, Serenity and Backyard Vineyards.

Through its commercial division, Trajectory Beverage Partners, the Company serves as the sales agent for a wide range of leading international beverage brands.

Wine Portfolio:

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

Spirits Portfolio:

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

Beer, Cider, and RTD Portfolio:

In the beer, cider, and ready-to-drink (RTD) categories, Trajectory represents Darling Mimosas from Ontario; Warsteiner and Konig Ludwig from Germany.

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

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

RECENT EVENTS AND Q3 2026 HIGHLIGHTS

- Revenue for Q3 2026 was \$8.2 million, an increase of \$1.8 million from \$6.4 million in Q3 2025. The Winery division experienced an increase in sales of \$1.9 million while the Agency division experienced a decrease of \$0.1 million.
- Gross margin¹ for Q3 2026 was \$4.9 million, an increase of \$1.2 million, from \$3.7 million in Q3 2025. Gross margin as a percentage of revenue grew to 59.8% for Q3 2026 compared to 57.5% in Q3 2025. The change in gross margins came from the Winery division experiencing an increase of \$1.1 million while the Agency division reported an increase of \$0.1 million. The gross margin improvement in the Winery division was driven by volume growth across all channels as well as enhancements in the VQA Support program. Q3 2026 did not include any Wine Sector Support Program rebates. By comparison, Q3 2025 included \$0.6 million of rebates received in that year, affecting the comparability of gross margins in Q3 2026 on a year-over-year basis due to timing.
- SG&A expenses increased by \$1.2 million to \$4.3 million in Q3 2026 from \$3.1 million in Q3 2025. The increase was primarily driven by a \$0.4 million increase in VQA support program payments to Generations related to the D'Ont Poke the Bear licensing agreement (50% of VQA rebates payable through May 2029, recorded as commission expense), \$0.3 million in advertising and promotion, \$0.2 million in professional fees related to compliance requirements, \$0.1 million in delivery costs due to higher volumes, \$0.1 million in bad debt expense, and \$0.1 million in employee-related costs.
- Adjusted EBITDA¹ increased by \$0.1 million to \$0.7 million in Q3 2026 from \$0.6 million in Q3 2025. The Adjusted EBITDA increase is attributed to improving gross margins in the Winery division of \$1.2 million which were partially impacted by the timing of Wine Section Support Program payments of \$0.6 million as discussed above, and was partially offset by an overall increase in SG&A expenses of \$1.2 million.
- EBITDA¹ decreased by \$0.7 million to \$0.7 million in Q3 2026 from \$1.4 million in Q3 2025.
- During YTD 2026, the Company generated \$2.3 million of cash from operating activities before changes in non-cash working capital, compared to an outflow of \$0.1 million in YTD 2025. After incorporating changes in working capital, cash generated from operating activities was \$3.9 million in YTD 2026, versus an outflow of \$0.1 million in YTD 2025.
- In December, 2025, the compliance issue with the provincial wholesaler of record was resolved to their satisfaction at nominal financial cost to the Company. While the resolution cost was nominal, the Company incurred approximately \$0.1 million in legal and audit-related professional fees in Q3 2026 and \$0.4 million through Q3 2026 YTD in connection with the review process.

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- In November, 2025, the Company entered into a further amendment to its Second Amended and Restated Credit Agreement (the “SARCA”) with Bank of Montreal (“BMO”), the notable terms of which were as follows: (i) extension of the maturity date to March 27, 2026, (ii) the establishment of a temporary bulge credit facility of \$3.6 million, and (iii) a limited recourse guarantee granted by Lassonde Industries Inc. in favour of BMO on the temporary bulge credit facility.
- In November, 2025, the Company replaced the remaining \$4.7 million of 2024 Replacement Debentures with new debentures (the "2025 Replacement Debentures"). The material terms of the 2025 Replacement Debentures are the similar as the 2024 Replacement Debentures, other than (i) the conversion price, which is now \$0.22, and (ii) the maturity date, which is now November 9, 2026. \$0.1 million of smaller debentures and \$0.4 million of unpaid coupon interest were settled in cash during Q3 2026.
- In June, 2025 and October, 2025, the Company issued 1.9 million common shares valued at \$0.4 million with respect to remaining obligations re the Company purchase of Perigon Beverage Group. This is further to the October, 2024 initial purchase price of \$1.5 million settled through the issuance of 5,000,000 common shares.
- In June 2025, the Company paid off the \$2.5 million demand non-revolving term loan out of the previously accrued VQA proceeds received of \$3.1 million. In April 2025, the Company also made a payment of \$0.5 million on the non-revolving term loan with proceeds received from the mortgage receivable.
- In February, 2025, the United States government announced new trade measures, including tariffs of 25% on goods imported from Canada which was subsequently increased to 35% on non-CUSMA goods. The Company is continuing to evaluate the potential impacts the tariffs may have on its supply of inputs and demand for its products. To date, the overall impact has been positive, driven in part by strengthening “Buy Canada” consumer sentiment that has supported incremental demand and growth, while there has been minimal impact on the Company’s cost of goods sold. The Company will continue to work with its suppliers and customers to mitigate any future risks and capitalize on emerging opportunities.
- In May, 2024, the Ontario government also announced its commitment to expand the province’s alcohol beverage marketplace. As of October 2024, all eligible convenience, grocery and big-box stores in Ontario are able to sell beer, cider, wine and ready-to-drink alcoholic beverages
- In May, 2024, the Ontario government updated its December 2023 announcement with respect to significant policies and changes to an existing program intended to provide economic support for the Ontario wine industry for a period of five years. Under the revised Ontario VQA Support Program, the Company recorded revenues of \$2.0 million in Q3 2026 (Q3 2025 - \$1.0 million).

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

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GOING CONCERN

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

Net income (loss) and comprehensive income (loss) for YTD 2026 was income of \$0.2 million (YTD 2025 - loss of \$1.3 million). Additionally, the Company reported cash flow from operations (before changes in non-cash working capital) of \$2.3 million in YTD 2026 (YTD 2025 - negative \$0.1 million). As at December 31, 2025, the Company had an accumulated deficit of \$35.0 million (March 31, 2025 - \$35.2 million) and working capital of \$1.9 million (March 31, 2025 - \$Nil million).

On November 7, 2025, the Company agreed to the seventh amendment to its SARCA with BMO that, among other provisions, extended the maturity date to March 27, 2026 (*see further discussion in Liquidity and Capital Resources section below*). Effective August 22, 2025, the Company entered into the sixth amendment to its SARCA under which BMO waived all covenant breaches up to July 31, 2025. (As at December 31, 2025, the Company is in compliance with all of its covenant obligations for the rolling 4 quarter period then ended). On November 15, 2024, the Company entered into a third amendment to its SARCA, the main component of which was a new non-revolving credit facility of \$2.5 million due no later than July 31, 2025 (fully repaid in June 2025 from receipt of VQA proceeds). As of December 31, 2025, the Company has debt repayment requirements of \$18.4 million over the next twelve months, including all its term loans, the current portion of its lease liabilities, the principal amount of the debentures payable plus accrued interest due by November 9, 2026 (*see further discussion in Liquidity and Capital Resources section below*), as well as annual seasonal grape purchase commitments in the fall of 2025. These circumstances lend significant doubt as to the ability of the Company to continue as a going concern and, accordingly, the appropriateness ultimately of the use of accounting principles applicable to the going concern assumption.

In response to the recurring operating losses, negative cash flows from operating activities, and loss of a significant supplier, the Company has taken a number of actions to enhance its financial flexibility, to meet its obligations and to fund its ongoing business operations. This has been evidenced by the November, 2023 private placement for net cash proceeds of \$8.2 million, the July, 2024 private placement for net proceeds of \$2.3 million, the debenture financing of \$4.9 million arranged in November, 2022 and its subsequent rollovers, the sale of Queenston Mile Vineyard in February, 2024 for net proceeds of \$3.3 million and the other assets held for sale, the agreement with Renaissance and execution of the put option in August, 2024 for total proceeds of \$2.3 million, the updated credit agreement with BMO in November, 2025 and additional BMO funding of \$3.6 million, and significant progress on its debt reduction initiatives. To ensure the Company maintains an adequate level of liquidity, including compliance with debt covenants, the Company continues to maintain a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow.

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

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REGULATORY COMPLIANCE REVIEW – CONSIGNMENT CHANNEL

During Q1 2026, the Company identified an internal practice of submitting purchase orders and corresponding invoices to its provincial wholesaler of record under customer names that had not initiated the orders. These findings were disclosed to its provincial wholesaler of record and were delivered in a formal notification letter. The Company worked through its next steps and/or penalties/sanctions with its provincial wholesaler of record. In response to these matters, a Compliance Committee was formed which undertook a comprehensive internal investigation. This included interviews with senior management and operational staff across all business units, and a review of sales, tax, licensing, and export practices.

In December, 2025, the matter was resolved to the satisfaction of the provincial wholesaler of record at nominal financial cost to the Company. While the resolution cost was nominal, the Company incurred approximately \$0.1 million in legal and audit-related professional fees in Q3 2026 and \$0.4 million through Q3 2026 YTD in connection with the review process.

QUARTERLY PERFORMANCE

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

	Dec-2025 Q3 2026 \$	Sep-2025 Q2 2026 \$	Jun-2025 Q1 2026 \$	Mar-2025 Q4 2025 \$	Dec-2024 Q3 2025 \$	Sep-2024 Q2 2025 \$	Jun-2024 Q1 2025 \$	Mar-2024 Q4 2024 \$
<u>Balance sheet</u>								
Working capital surplus (deficiency)	1,898,652	1,384,892	657,601	6,039	588,405	(99,350)	(3,285,654)	(2,394,660)
Term debt, lease liabilities and debentures payable	17,656,629	16,831,109	16,953,476	21,121,996	20,152,226	18,284,616	23,153,429	22,183,891
Total equity	24,049,753	23,705,897	23,211,629	22,700,895	23,507,206	21,639,419	18,952,346	20,896,431
<u>Income statement</u>								
Revenue	8,235,060	8,451,774	8,340,501	4,207,745	6,411,295	7,715,463	6,171,781	5,500,120
Gross margin	4,926,183	5,901,897	4,715,179	2,306,666	3,686,460	4,157,914	2,762,287	3,704,311
EBITDA ¹	709,636	913,776	1,430,470	(192,528)	1,365,002	1,045,174	(1,099,239)	424,222
Adjusted EBITDA ¹	657,739	1,793,935	1,271,081	(19,080)	616,345	520,353	(330,147)	1,651,599
Net income (loss)	(135,076)	(16,513)	365,951	(1,118,256)	483,442	190,449	(2,017,779)	(679,394)
Basic income (loss) per share	0.00	0.00	0.01	(0.02)	0.01	0.00	(0.04)	(0.01)

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

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RESULTS OF OPERATIONS

	<u>Q3 2026</u>	<u>YTD 2026</u>	<u>Q3 2025</u>	<u>YTD 2025</u>
Revenue	\$ 8,235,060	\$ 25,027,336	\$ 6,411,295	\$ 20,281,894
Cost of sales	<u>3,308,877</u>	<u>9,484,076</u>	<u>2,724,835</u>	<u>9,691,877</u>
Gross margin	4,926,183	15,543,260	3,686,460	10,590,017
<i>Gross margin (% of revenue)</i>	<i>59.8%</i>	<i>62.1%</i>	<i>57.5%</i>	<i>52.2%</i>
Selling, general and administration expenses	<u>4,268,444</u>	<u>11,813,480</u>	<u>3,118,260</u>	<u>10,000,695</u>
<i>SG&A expenses (% of revenue)</i>	<i>51.8%</i>	<i>47.2%</i>	<i>48.6%</i>	<i>49.3%</i>
Income (loss) from operations	657,739	3,729,780	568,200	589,322
Change in fair value of derivative liability	(106,974)	(758,868)	(283,980)	(537,014)
Perigon contingent consideration	242,785	403,418	10,650	10,650
Regulatory compliance costs	143,853	353,853	-	-
Loss (gain) on disposition of intangible assets	-	231,199	-	(501,137)
Restructuring charge	-	275,913	(76,983)	2,549
Loss on de-recognition of ROU asset	-	-	-	198,240
Impairment provision - assets held for sale	-	-	-	410,000
Share based compensation	236,146	731,075	84,342	225,925
Gain on modification of debenture	<u>(567,707)</u>	<u>(567,707)</u>	<u>(530,831)</u>	<u>(530,831)</u>
EBITDA	709,636	3,060,897	1,365,002	1,310,940
Interest and accretion	490,507	1,574,994	551,749	1,675,011
Depreciation and amortization	<u>354,205</u>	<u>1,271,538</u>	<u>329,811</u>	<u>979,812</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (135,076)</u>	<u>\$ 214,365</u>	<u>\$ 483,442</u>	<u>\$ (1,343,883)</u>

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

Revenue for Q3 2026 was \$8.2 million, an increase of \$1.8 million from \$6.4 million in Q3 2025. The Winery division experienced an increase in sales of \$1.9 million while the Agency division experienced a decrease of \$0.1 million. The increase in sales in the Winery division is driven by all retail channels with Grocery and Convenience growing most strongly. Changes in the VQA support program also supported improvements. The decrease in the Agency division was primarily driven by the sale of Western Canada operations to Renaissance which has been partly offset by the acquisition of Perigon Beverage Group.

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Gross margin¹ for Q3 2026 was \$4.9 million, an increase of \$1.2 million, from \$3.7 million in Q3 2025. Gross margin as a percentage of revenue grew to 59.8% for Q3 2026 compared to 57.5% in Q3 2025. The change in gross margins came from the Winery division experiencing an increase of \$1.1 million while the Agency division reported an increase of \$0.1 million. The gross margin in the Winery division increased from 57.0% in Q3 2025 to 57.6% in Q3 2026, which did not include any Wine Sector Support Program rebates. Q3 2025 included \$0.6 million of rebates received in that year, affecting the comparability of gross margins in Q3 2026 on a year-over-year basis due to timing. The gross margin at the Agency increased from 61.0% in Q3 2025 to 87.8% in Q3 2026 as the revenue mix in Q3 2026 was comprised almost entirely of commission income compared to significant third party wines and spirits in Q3 2025 (following the sale of Western Canada operations in FY 2025).

Total SG&A expenses increased by \$1.2 million to \$4.3 million in Q3 2026 from \$3.1 million in Q3 2025. The increase was primarily driven by a \$0.4 million increase in VQA support program payments to Generations related to the D'Ont Poke the Bear licensing agreement (50% of VQA rebates payable through May 2029, recorded as commission expense), \$0.3 million in advertising and promotion, \$0.2 million in professional fees related to compliance requirements, \$0.1 million in delivery costs due to higher volumes, \$0.1 million in bad debt expense, and \$0.1 million in employee-related costs.

Income from operations for Q3 2026 was \$0.7 million compared to \$0.6 million in Q3 2025, an increase of \$0.1 million, reflecting improved Winery margins partially offset by higher SG&A. This improvement was achieved despite lapping the prior year Wine Sector Support Program payment recognized in Q3 2025.

As at December 31, 2025, the Company has classified certain winery division properties and related operating assets and liabilities detailed below totaling \$3.6 million as assets held for sale. Assets are carried at the lower of fair value less costs of disposal and carrying amount. Based on a management estimate, an impairment provision of \$0.4 million was recognized during Q1 2025.

EBITDA¹ decreased by \$0.7 million to \$0.7 million in Q3 2026 from \$1.4 million in Q3 2025. The change is attributable to the increase in Winery gross margin of \$1.1 million less year-over-year difference in the change in fair value of the derivative liability of \$0.2 million, offset by year-over-year increases in expenses as follows: SG&A of \$1.2 million as detailed above, regulatory compliance costs of \$0.1 million and Perigon acquisition costs of \$0.2 million. Adjusted EBITDA¹ increased by \$0.1 million to \$0.7 million in Q3 2026 from \$0.6 million in Q3 2025. The Adjusted EBITDA increase is attributed to improving gross margins in the Winery division less the overall increase in SG&A expenses compared to the prior year.

Interest and accretion expense was \$0.5 million in Q3 2026, a decrease of \$0.1 million compared to Q3 2025. Depreciation and amortization expense increased by \$0.1 million when compared to Q3 2025.

Net income decreased from \$0.5 million in Q3 2025 to a loss of \$0.1 million in Q3 2026 primarily due to the same non-operational and one-time items that impacted EBITDA.

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LIQUIDITY AND CAPITAL RESOURCES

	<u>December 31, 2025</u>			<u>March 31, 2025</u>		
	<u>As reported</u>	<u>Assets held for sale</u>	<u>Adjusted</u>	<u>As reported</u>	<u>Assets held for sale</u>	<u>Adjusted</u>
ASSETS						
Accounts receivable	\$ 4,074,929	\$ 43,684	\$ 4,118,613	\$ 7,572,109	\$ 5,395	\$ 7,577,504
Inventory	15,656,037	2,446,890	18,102,927	15,164,887	2,097,047	17,261,934
Prepaid expenses	857,535	39,957	897,492	751,409	38,439	789,848
Asset held for resale	4,407,049	(4,407,049)	-	4,012,449	(4,012,449)	-
Mortgage receivable	-	-	-	500,000	-	500,000
Current portion of finance lease receivable	60,860	-	60,860	58,363	-	58,363
Derivative asset	185,736	-	185,736	-	-	-
	<u>25,242,146</u>	<u>(1,876,518)</u>	<u>23,365,628</u>	<u>28,059,217</u>	<u>(1,871,568)</u>	<u>26,187,649</u>
Finance lease receivable	132,412	-	132,412	178,375	-	178,375
Property, plant and equipment	16,837,753	748,274	17,586,027	17,318,072	743,324	18,061,396
Right of use assets	878,621	896,984	1,775,605	798,931	896,984	1,695,915
Intangible assets	4,716,373	231,260	4,947,633	4,861,775	231,260	5,093,035
	<u>\$ 47,807,305</u>	<u>\$ -</u>	<u>\$ 47,807,305</u>	<u>\$ 51,216,370</u>	<u>\$ -</u>	<u>\$ 51,216,370</u>
LIABILITIES						
Accounts payable and accrued liabilities	\$ 5,271,669	\$ 85,134	\$ 5,356,803	\$ 5,786,910	\$ 55,017	\$ 5,841,927
Current portion of term loans payable and lease liabilities	12,888,079	105,461	12,993,540	16,265,436	104,102	16,369,538
Debentures payable	4,354,492	-	4,354,492	4,394,263	-	4,394,263
Derivative liability	-	-	-	725,734	-	725,734
Liabilities held for sale	829,254	(829,254)	-	880,835	(880,835)	-
	<u>23,343,494</u>	<u>(638,659)</u>	<u>22,704,835</u>	<u>28,053,178</u>	<u>(721,716)</u>	<u>27,331,462</u>
Lease liabilities, net of current portion	414,058	638,659	1,052,717	462,297	721,716	1,184,013
	<u>23,757,552</u>	<u>-</u>	<u>23,757,552</u>	<u>28,515,475</u>	<u>-</u>	<u>28,515,475</u>
SHAREHOLDERS' EQUITY	<u>24,049,753</u>	<u>-</u>	<u>24,049,753</u>	<u>22,700,895</u>	<u>-</u>	<u>22,700,895</u>
	<u>\$ 47,807,305</u>	<u>\$ -</u>	<u>\$ 47,807,305</u>	<u>\$ 51,216,370</u>	<u>\$ -</u>	<u>\$ 51,216,370</u>

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

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Liquidity risk is the risk that the Company may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or damage to the Company's reputation. To ensure the Company maintains an adequate level of liquidity, including compliance with debt covenants, the Company maintains a strategic review process that engages in actions designed to reduce the cost structure, improve productivity and enhance future cash flow (see further discussion in "Going Concern" section above);

Working capital, modified as described two paragraphs above, increased by \$1.7 million to a surplus of \$0.7 million as at December 31, 2025 from a deficiency of \$1.1 million as at March 31, 2025, mostly from the overall improving income from operations over the prior year.

As at December 31, 2025, the Company has classified certain operating assets (and associated liabilities) detailed below netting to \$3.6 million as assets held for sale. Management is pursuing an active program to locate a buyer and intends to sell the remaining assets within one year of the reporting date, having already sold the previously similarly classified Queenston Mile Vineyard winery in February, 2024. Based on a management estimate, an impairment provision of \$0.4 million was recognized during Q1 2025 relating to the property, plant and equipment.

	<u>December 31,</u> <u>2025</u>	<u>March 31, 2025</u>
<u>Assets held for sale</u>		
Accounts receivable	\$ 43,684	\$ 5,395
Inventory	2,446,890	2,097,047
Prepaid expenses	39,957	38,439
Property, plant and equipment	748,274	743,324
Right-of-use assets	896,984	896,984
Intangible assets	231,260	231,260
	<u>4,407,049</u>	<u>4,012,449</u>
<u>Liabilities held for sale</u>		
Accounts payable and accrued liabilities	85,134	55,017
Lease liability	744,120	825,818
	<u>829,254</u>	<u>880,835</u>
<u>Net assets held for sale</u>	<u>\$ 3,577,795</u>	<u>3,131,614</u>

Accounts receivable of \$4.1 million as at December 31, 2025 decreased by \$3.5 million from \$7.6 million as at March 31, 2025, driven by a VQA rebate of \$3.9 million received in Q3 2026 as well as lower AR trade driven by the agency buy/sell customers compared to prior year.

The inventory balance was \$18.1 million as at December 31, 2025, an increase of \$0.8 million from \$17.3 million as at March 31, 2025, impacted by seasonal grape purchases of \$5.5 million offset by a sell-through of bulk wine of \$2.1 million and normal depletion from an increased level of sales.

Accounts payable and accrued liabilities of \$5.4 million as at December 31, 2025 decreased by \$0.4 million compared to \$5.8 million as at March 31, 2025 also entirely due to change in accrued coupon interest on the debentures payable. \$0.4 million was settled in cash in December, 2025.

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The BMO credit facilities are governed under the terms of its Second Amended and Restated Credit Agreement (the “SARCA”) and include non-revolving term loans and a revolving operating line which totalled \$12.7 million as at December 31, 2025, a decrease of \$3.3 million from \$16.0 million as at March 31, 2025. The decrease is comprised of (i) a paydown on the demand non-revolving term loan of \$2.5 million (out of the VQA proceeds of \$3.1 million received in 2025 Q1), (ii) a paydown of the non-revolving term loan of \$1.3 million, financed largely out of the proceeds of the mortgage receivable of \$0.5 million (received in April, 2025) and further VQA proceeds, and (iii) an increase of \$0.5 million in the revolving term loan from normal swings in operating cash flows.

On November 7, 2025, the Company agreed to the 7th amendment to its SARCA with BMO that featured the following material changes:

- maturity date extended to March 27, 2026
- a temporary bulge in the revolving line of credit in the amount of \$3,600,000 due no later than the maturity date
- an increase of the interest rate during the period of the temporary bulge to prime plus 2.65% from prime plus 2.40%.

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

Effective August 22, 2025, the Company entered into a further amendment (the “Sixth Amendment”) with BMO under which BMO waived all covenant breaches up to July 31, 2025. (As at December 31, 2025, the Company is in compliance with all of its covenant obligations for the rolling 4 quarter period then ended).

Effective February 28, 2025, the fifth amendment extended the maturity date to March 31, 2025.

Effective January 31, 2025, the fourth amendment extended the maturity date to February 28, 2025.

Effective November 15, 2024, the Company entered into a further amendment (the “Third Amendment”) to its SARCA with BMO. The notable terms of the Third Amendment were as follows:

- **Credit Facilities:** The establishment of a non-revolving credit facility (the “Demand NRT Facility”) in the amount of \$2.5 million which matures on the date that is the earlier of: (a) the date BMO demands repayment of all outstanding secured obligations under the Demand NRT Facility; (b) the date on which the Lender is satisfied that the VQA rebate for the 2025 fiscal year has been received by the Company; (c) the fully drawn amount under the Demand NRT Facility is prepaid by the Company; and (d) July 31, 2025.
- **Credit Facilities:** The non-revolving term credit facility (the “NRT Facility”) previously available in the amount of \$8.7 million has been reduced to \$3.0 million.
- **Lassonde Limited Guarantee:** The addition of a limited recourse guarantee granted by Lassonde Industries Inc., in favour of BMO in an aggregate amount not exceeding the Demand NRT Facility secured obligations under the SARCA.
- **Interest Rates.** The interest rates in respect of the following facilities has been amended to now be as follows: (a) the alternate base rate of Canada plus 2.40% in respect of each Base Rate Canada Loan under the RT Facility, (b) the alternate base rate of Canada plus 2.65% in respect of each Base Rate Canada Loan under the NRT Facility; and (c) the prime rate plus 3.15% in respect of each Prime Rate Loan under the Demand NRT Facility.

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After recording accretion on the 2024 Replacement Debentures of \$0.3 million, the carrying value of the 2024 Replacement Debentures as at March 31, 2025 was \$4.7 million. In December, 2025, \$0.1 million of debentures were settled in cash. On December 16, 2025, all of the remaining and outstanding 2024 Replacement Debentures with a face value of \$4.7 million were rolled over into new one-year convertible debentures (the "2025 Replacement Debentures") with similar terms and market interest rate, and a conversion price based of \$0.22 per common share. The 2025 Replacement Debentures were initially recognized with a fair value of \$4.2 million after recognizing a derivative asset of \$0.2 million. The difference between the face value of the 2024 Replacement Debentures of \$4.7 million plus the adjustments noted above less the fair value of the 2025 Replacement Debentures of \$4.2 million was \$0.6 million, and was recognized as income in Q3 2026. After recording accretion on the 2025 Replacement Debentures of \$0.1 million in Q3 2026, the carrying value of the 2025 Replacement Debentures as at December 31, 2025 was \$4.4 million.

The Company's debt to equity ratio decreased to 0.77:1 as at December 31, 2025 from 1.00:1 as at March 31, 2025, where debt is defined as total liabilities less accounts payable and accrued liabilities, and equity is defined as shareholders' equity. This decrease is due to the overall paydown of the BMO credit facilities as described above and the profitability achieved in YTD 2026.

CAPITALIZATION

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

	December 31, 2025	March 31, 2025	Change in reporting period
Common shares	67,818,329	65,848,328	1,970,001
Stock options	5,925,000	6,430,000	(505,000)
Deferred share units	2,173,970	1,482,162	691,808
Convertible debentures	21,154,545	19,758,333	1,396,212
Coupon interest on debentures payable	6,120,194	5,792,687	327,507
Total equity instruments	<u>103,192,038</u>	<u>99,311,510</u>	<u>3,553,021</u>

During YTD 2026, the changes to the Company's capitalization were as follows:

- In July, 2025 and December, 2025, the Company issued an aggregate of 1,970,001 common shares valued at an average of \$0.20 per share for a total of \$403,418 as the first two of three payments with respect to the contingent consideration payable associated with the acquisition of the Perigon Beverage Group (based upon the achievement of gross margin targets).
- In October, 2025, the Board of Directors authorized the issuance of 1,250,000 stock options to a key member of management. The options each have an exercise price of \$0.19 and a term of 5 years, vesting as to 25% per year on each anniversary date over the next 4 years. A total of 1,755,000 options also expired unexercised during the reporting period.
- During YTD 2026, the Company has issued DSUs in settlement of previously accrued directors compensation, as follows:
 - April 2025: 221,250 DSUs valued at \$44,250
 - July 2025: 221,875 DSUs valued at \$44,375
 - October 2025: 248,683 DSUs valued at \$47,250

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- The number of shares that could be issued in settlement of accrued coupon interest on the debentures payable increased by 327,507, due to the net of (i) normal interest accrued over the course of YTD 2026, (ii) settlement in cash of \$0.4 million of accrued coupon interest, and (iii) the decrease in the Company's stock price,

SUBSEQUENT EVENTS

Deferred share units

In January 2026, the Company issued an aggregate of 187,501 DSUs in settlement of \$31,875 of previously accrued deferred directors compensation.

Debentures payable

In January, 2026, Lassonde Industries Inc. ("Lassonde") acquired a 10.0% unsecured convertible debenture of Diamond Estates with a stated maturity date of November 9, 2026 in the principal amount of \$1,304,000 (and related accrued coupon interest) from a third party through a privately negotiated transaction. Following the acquisition, Lassonde and parties related to it now hold 100% of the issued and outstanding convertible debentures that have a face value of \$4,654,000.

NON-IFRS FINANCIAL MEASURES

Management uses net income (loss) and comprehensive income (loss) as presented in the unaudited interim condensed consolidated statements of net income (loss) and comprehensive income (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 income (loss) and comprehensive income (loss) below under "Results of Operations".

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

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

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The Company calculates gross margin as follows:

	<u>Q3 2026</u>	<u>YTD 2026</u>	<u>Q3 2025</u>	<u>YTD 2025</u>
Revenue	<u>\$ 8,235,060</u>	<u>\$ 25,027,336</u>	<u>\$ 6,411,295</u>	<u>\$ 20,281,894</u>
Cost of sales				
Change in inventories of finished goods and raw materials consumed	3,308,877	9,484,076	2,724,835	9,691,877
Depreciation	<u>223,164</u>	<u>910,604</u>	<u>213,541</u>	<u>530,097</u>
Gross profit	<u>4,703,019</u>	<u>14,632,656</u>	<u>3,472,919</u>	<u>10,059,920</u>
Exclude depreciation	<u>223,164</u>	<u>910,604</u>	<u>213,541</u>	<u>530,097</u>
Gross margin	<u>\$ 4,926,183</u>	<u>\$ 15,543,260</u>	<u>\$ 3,686,460</u>	<u>\$ 10,590,017</u>
<i>Gross margin (% of revenue)</i>	<u>59.8%</u>	<u>62.1%</u>	<u>57.5%</u>	<u>52.2%</u>

The Company calculates EBITDA and Adjusted EBITDA as follows:

	<u>Q3 2026</u>	<u>YTD 2026</u>	<u>Q3 2025</u>	<u>YTD 2025</u>
Net loss for period	<u>\$ (135,076)</u>	<u>\$ 214,365</u>	<u>\$ 483,442</u>	<u>\$ (1,343,884)</u>
Interest and accretion	490,507	1,574,994	551,749	1,675,011
Depreciation and amortization	<u>354,205</u>	<u>1,271,538</u>	<u>329,811</u>	<u>979,813</u>
EBITDA	<u>709,636</u>	<u>3,060,897</u>	<u>1,365,002</u>	<u>1,310,940</u>
Change in fair value of derivative liability	<u>(106,974)</u>	<u>(758,868)</u>	<u>(283,980)</u>	<u>(537,014)</u>
Perigon contingent consideration	242,785	403,418	10,650	10,650
Regulatory compliance costs	143,853	353,853	-	-
Loss (gain) on disposition of intangible assets	-	231,199	-	(501,137)
Restructuring charge	-	275,913	(76,983)	2,549
Loss on de-recognition of ROU asset	-	-	-	198,240
Impairment provision - assets held for sale	-	-	-	410,000
Share-based compensation	236,146	731,075	84,342	225,925
Gain on modification of debenture	<u>(567,707)</u>	<u>(567,707)</u>	<u>(530,831)</u>	<u>(530,831)</u>
Cost of goods sold adjustments for fair value of EWG inventories sold	<u>-</u>	<u>-</u>	<u>48,145</u>	<u>183,996</u>
Adjusted EBITDA	<u>\$ 657,739</u>	<u>\$ 3,729,780</u>	<u>\$ 616,345</u>	<u>\$ 773,318</u>

RECENT ACCOUNTING PRONOUNCEMENTS

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Recently issued accounting pronouncements

IFRS 18 "Presentation and Disclosure in Financial Statements"

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

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

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

STRATEGIC OUTLOOK AND DIRECTION

Diamond is committed to building enduring, high quality beverage alcohol brands that enhance life enjoyment in a socially responsible manner. The Company believes in the development of leading brands that recognize consumers' interests in wine, beer, cider and ready-to-drink beverages and spirits, while addressing their desire to explore many of the Company's exciting offerings. Consumer demand has been expressing interest in low and non-alcoholic products; in response the Company has been providing a low alcohol brand Mindful in its domestic portfolio and has been consistently adding low and non-alcoholic beer and wine suppliers to its import portfolio. Vertically integrated, Diamond combines modern and efficient production facilities for its Niagara and B.C. wines with a national oriented marketing agency for its broad portfolio of leading international wines and spirits. The Company is well positioned to add to its throughput of wine production and leverage its national sales relationships to drive growth from existing brands and support new brands without material change to its cost structure.

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

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