Consolidated Financial Statements of

MAGNOTTA WINERY CORPORATION

Years ended January 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Magnotta Winery Corporation

We have audited the accompanying consolidated financial statements of Magnotta Winery Corporation ("the Entity"), which comprise the consolidated balance sheets as at January 31, 2011 and 2010, and the consolidated statements of earnings, comprehensive income and retained earnings, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Magnotta Winery Corporation as at January 31, 2011 and 2010, and its consolidated results of its operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada

April 21, 2011

MAGNOTTA WINERY CORPORATION

Consolidated Balance Sheets

January 31, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Accounts receivable	$ 616,797	$ 590,322
Inventories (note 2)	30,810,133	29,878,758
Income taxes receivable	534,686	137,511
Future income taxes (note 8)	58,188	83,130
Prepaid expenses and deposits	243,221	268,306
	32,263,025	30,958,027
Property, plant and equipment (note 3)	20,085,113	20,468,725
Winery licenses	251,516	251,516
	$ 52,599,654	$ 51,678,268
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 4)	$ 4,979,570	$ 5,249,398
Accounts payable and accrued liabilities	1,167,308	1,568,495
Current portion of long-term debt (note 5)	1,669,600	1,041,811
Current portion of retirement allowance (note 10)	300,000	300,000
	8,116,478	8,159,704
Long-term debt (note 5)	4,277,798	5,665,914
Long-term retirement allowance (note 10)	440,000	740,000
Future income taxes (note 8)	697,252	482,856
Shareholders' equity:		
Share capital (note 6)	6,961,617	6,961,617
Notes receivable for share capital (note 9(b))	-	(116,250)
Other paid-in capital	210,000	210,000
Retained earnings	31,896,509	29,574,427
	39,068,126	36,629,794
Commitments (note 13)		
	$ 52,599,654	$ 51,678,268

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"signed" Rossana DiZio Magnotta Director

"signed" Owen McManamon Director

MAGNOTTA WINERY CORPORATION

Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

Years ended January 31, 2011 and 2010

	2011	2010
Net sales	$ 23,223,804	$ 24,172,809
Cost of goods sold, excluding amortization of property, plant and equipment	13,720,915	13,935,458
Amortization of property, plant and equipment (production)	434,852	524,864
Total cost of goods sold	14,155,767	14,460,322
Gross profit	9,068,037	9,712,487
Expenses:		
Selling, administration and other	4,629,071	4,717,334
Retirement allowance (note 10)	-	1,600,000
Amortization of property, plant and equipment (non-production)	581,722	595,471
Interest:		
Long-term debt	335,430	372,567
Bank indebtedness	83,957	128,232
	5,630,180	7,413,604
Earnings before income taxes	3,437,857	2,298,883
Income taxes (recovery) (note 8):		
Current	876,437	1,131,422
Future	239,338	(422,653)
	1,115,775	708,769
Net earnings and comprehensive income	2,322,082	1,590,114
Retained earnings, beginning of year	29,574,427	27,984,313
Retained earnings, end of year	$ 31,896,509	$ 29,574,427
Earnings per common share (note 7):		
Basic	$ 0.17	$ 0.12
Diluted	0.17	0.11

See accompanying notes to consolidated financial statements.

MAGNOTTA WINERY CORPORATION

Consolidated Statements of Cash Flows

Years ended January 31, 2011 and 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Net earnings	$ 2,322,082	$ 1,590,114
Items not involving cash:		
Amortization of property, plant and equipment	1,016,574	1,120,335
Future income taxes	239,338	(422,653)
Unrealized foreign exchange loss (gain)	17,247	(6,001)
Change in non-cash operating working capital:		
Accounts receivable	(26,475)	(29,522)
Inventories	(931,375)	(2,031,155)
Income taxes receivable	(397,175)	328,109
Prepaid expenses and deposits	25,085	(21,268)
Accounts payable and accrued liabilities	(401,187)	131,462
Retirement allowance	(300,000)	1,040,000
	1,564,114	1,699,421
Financing:		
Decrease in long-term debt	(777,574)	(687,574)
Repayment of notes receivable for share capital	116,250	116,250
Decrease in bank indebtedness	(269,828)	(631,927)
	(931,152)	(1,203,251)
Investments:		
Purchase of property, plant and equipment	(632,962)	(496,170)
Decrease in cash and cash equivalents being cash and cash equivalents, beginning and end of year	$ –	$ –
Supplemental cash flow information:		
Interest paid	$ 499,443	$ 529,030
Income taxes paid (net of income tax recovered)	1,193,273	875,125

See accompanying notes to consolidated financial statements.

Magnotta Winery Corporation ("Magnotta" or the "Company") is incorporated under the laws of Ontario. The Company grows grapes and produces wines primarily through its vineyards in Ontario, Canada and Maipo, Chile. The wine is sold through its retail locations in Ontario, Canada and e-commerce website. The Company also produces beer, spirits and juice for wine making and sells them through its retail locations and e-commerce website. Additional sales are obtained through representatives in Canadian provinces and from export markets.

1. Significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of Magnotta and its subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on deposit, amounts deposited in money market funds and term deposits maturing within 90 days of acquisition and are valued at cost plus accrued interest, which approximates fair value.

(c) Inventories:

Inventories are valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. Cost includes attributable direct costs and manufacturing overhead, including amortization of property, plant and equipment.

1. Significant accounting policies (continued):

(d) Property, plant and equipment:

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided at rates intended to expense the property, plant and equipment over the estimated useful lives of the property, plant and equipment as follows:

Asset	Basis	Rate
Vineyards	Straight line	5%
Buildings	Declining balance	4%
Equipment	Declining balance	10% - 30%
Leasehold improvements	Straight line	Lesser of estimated useful life and lease term

Cost of planting new vines and ongoing cultivation costs for non-producing vines are capitalized. Vineyard development costs are amortized on a straight-line basis over 20 years commencing five years from the initial capitalization of the vines.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(e) Winery licenses:

Winery licenses, which have been assessed as having an indefinite life, are not amortized but are tested annually for impairment or more frequently if events or circumstances indicate that the asset might be impaired. Any impairment is recognized in earnings. The impairment test consists of a comparison of the fair value of the winery licenses with its carrying amount. When the carrying amount of the winery licenses exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. Management has determined that there is no impairment in the value of the winery licenses as at January 31, 2011 (2010 – nil).

1. Significant accounting policies (continued):

(f) Revenue recognition:

Revenue is recognized when persuasive evidence of an arrangement exists with a customer, delivery of goods and the transfer of title to the customer has occurred under the terms of the arrangement, the selling price is fixed or determinable and collectibility is reasonably assured. The Company deals primarily with retail customers. Revenue through its retail locations is recorded when the product is purchased by the customer.

Product excise taxes, which are collected on behalf of the government, are deducted from gross sales to arrive at net sales.

(g) Foreign currency translation:

The assets and liabilities of the Company's foreign subsidiary are considered financially and operationally dependent on the Company and are, therefore, classified as integrated operations. The temporal method is used to translate the financial statements of its integrated foreign subsidiary. Monetary items are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at historical exchange rates. Items in the consolidated statements of earnings and retained earnings are translated at the average exchange rate for the year. Exchange gains or losses are included in the determination of net earnings.

Foreign currency transactions of the Company are recorded at the rate in effect at the transaction date. Foreign currency monetary balances are translated to Canadian dollars at the rate in effect at the end of the year, with any gains or losses recorded to earnings.

(h) Income taxes:

Income taxes are accounted for using the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that enactment or substantive enactment occurs.

1. Significant accounting policies (continued):

The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the year in which the temporary differences and loss carryfowards become deductible. Future tax assets are evaluated and, if the realizability is not more likely than not, a valuation allowance is provided.

(i) Earnings per common share:

Basic earnings per common share is calculated using the weighted-average number of common shares outstanding during the year. The dilutive effect of the notes receivable for share capital is calculated based on the weighted average days that the notes were outstanding during the year. The resulting incremental shares are included in the denominator of the diluted earnings per share calculation.

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Due to the inherent uncertainty involved with making such estimates, actual results could differ from those reported.

Significant areas requiring the use of management estimates include the net realizable value of inventories, the fair value of winery licenses and the determination of impairment thereon, the recoverability of future income tax assets and the determination of fair values of financial instruments.

1. Significant accounting policies (continued):

(k) Financial instruments:

Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings, available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired, at which time, the amounts will be recorded in net earnings.

The Company designated its cash and cash equivalent as held-for-trading, which is measured at fair value and accounts receivable as loans and receivables, which are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, long-term debt and retirement allowance are classified as other financial liabilities, which are measured at amortized cost.

(l) Previously adopted accounting standards:

(a) Goodwill and intangible assets:

Effective February 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, which replaced Handbook Section 3062, Goodwill and Other Intangible Assets, and Handbook Section 3450, Research and Development Costs and established standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of the new standard did not have a significant impact on the consolidated financial statements.

1. Significant accounting policies (continued):

(m) Recently issued accounting pronouncements - not yet adopted:

(i) Business combinations:

In October 2008, the CICA issued Handbook Section 1582, Business Combinations ("CICA 1582), concurrently with CICA Handbook Section 1601, Consolidated Financial Statements ("CICA 1601"), and CICA Handbook Section 1602, Non-controlling Interest ("CICA 1602"). CICA 1582, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. CICA 1601, which replaces CICA Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. CICA 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements commencing on February 1, 2011. The new standards would only apply to the Company if it enters into a business combination.

(ii) International Financial Reporting Standards ("IFRS"):

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Company's first annual IFRS financial statements will be for the year ending January 31, 2012 and will include the comparative period of fiscal 2011. Starting in the first quarter of fiscal 2012, the Company will provide unaudited consolidated financial information in accordance with IFRS including comparative figures for 2011.

The Company is closely monitoring changes arising from this convergence and has identified that the majority of the Company's accounting policies are substantially compliant, and is currently establishing the changes required to the remaining accounting policies and determining the required adjustments to its consolidated financial statements (including additional disclosures) with its external financial advisors.

2. Inventories:

	2011	2010
Supplies and raw materials	$ 6,802,584	$ 7,735,020
Work in process	17,684,578	15,462,538
Finished goods	6,322,971	6,681,200
	$ 30,810,133	$ 29,878,758

3. Property, plant and equipment:

2011	Cost	Accumulated amortization	Net book value
Land	$ 1,675,182	$ –	$ 1,675,182
Land and vineyards	8,103,326	176,800	7,926,526
Buildings	7,588,888	2,861,421	4,727,467
Equipment	18,014,633	12,420,336	5,594,297
Leasehold improvements	2,144,693	1,983,052	161,641
	$ 37,526,722	$ 17,441,609	$ 20,085,113

2010	Cost	Accumulated amortization	Net book value
Land	$ 1,675,182	$ –	$ 1,675,182
Land and vineyards	7,915,895	150,400	7,765,495
Buildings	7,587,426	2,627,704	4,959,722
Equipment	17,541,503	11,672,844	5,868,659
Leasehold improvements	2,123,698	1,924,031	199,667
	$ 36,843,704	$ 16,374,979	$ 20,468,725

Long-term debt disclosed in note 5 to the consolidated financial statements is secured by certain land, buildings and vineyards.

4. Bank indebtedness:

Under its credit agreement, the Company has an approved operating line of credit of $11,500,000. The operating line of credit is due on demand, bears interest at bank prime plus 0.875% (2010 - 0.875%) and is secured by a general security agreement registered against all of the Company's assets. The Company is in compliance with all financial and operating covenants as at January 31, 2011.

5. Long-term debt:

	2011	2010
First mortgages, at a fixed blended rate of 5.70% (2010 - 5.70%), secured by certain land, buildings and vineyards, maturing August 2013 and September 2013	$ 2,786,921	$ 3,189,901
Second mortgage, at a fixed rate of 4.25% (2010 – 4.25%) secured by certain land, buildings and vineyards, maturing February 2015	478,203	518,738
Third mortgages, at a fixed rate of 6.50% (2010 - 6.50%), secured by certain land, buildings and vineyards, maturing October 2011	729,009	804,670
Third mortgages, bearing interest at the bank's prime rate plus a fixed margin of 1.00% (2010 - bank's prime rate plus a fixed margin of 1.00%), secured by certain land, buildings and vineyard, maturing May 2011	249,011	287,313
Third mortgage, at a fixed rate of 4.25% (2010 – 4.25%), secured by certain land, buildings and vineyards, maturing February 2015	1,450,000	1,550,000
Mortgage, bearing interest at a rate of 6.29% (2010 - 6.29%), secured by land, vineyard and buildings in Melipilla, Chile, repayable in Chilean UF 4,153 (2010 - UF 6,222), maturing December 2012	186,908	263,726
Other loans	67,346	93,377
	5,947,398	6,707,725
Less current portion	1,669,600	1,041,811
	$ 4,277,798	$ 5,665,914

5. Long-term debt (continued):

The aggregate maturities of long-term debt for each of the five years subsequent to January 31, 2011 are as follows:

2012	$ 1,669,600
2013	698,828
2014	2,066,996
2015	162,278
2016	1,349,696
	$ 5,947,398

The Company has provided its lenders with additional collateral in the form of cross guarantees in order to collateralize the loans. The terms of the guarantees stipulate that all subsidiaries share in the debt obligations of the Company.

6. Share capital:

(a) The authorized share capital consists of an unlimited number of common shares issued as follows:

	Number	Amount
Balance, January 31, 2011 and 2010	13,932,005	$ 6,961,617

For notes receivable for share capital refer to note 9(b).

(b) Stock Options:

The Company has an employee stock option plan (the "Plan") for key employees. Options to purchase common shares of Magnotta under the Plan may be granted by the Board of Directors to certain full-time employees and directors of the Company. No stock options were outstanding under the Plan as at January 31, 2011 and 2010.

7. Earnings per common share:

	2011			2010		
	Net earnings (millions)	Weighted average number of common shares (millions)	Per common share amount	Net earnings (millions)	Weighted average number of common shares (millions)	Per common share amount
Basic net earnings per common share	$ 2.32	13.82	$ 0.17	$ 1.59	13.80	$ 0.12
Shares secured by notes receivable	–	0.11	–	–	0.13	(0.01)
Diluted net earnings per common share	$ 2.32	13.93	$ 0.17	$ 1.59	13.93	$ 0.11

Weighted average number of common shares is calculated by converting the shareholder loans to common shares based on the number of days they were outstanding each year.

8. Income taxes:

Income tax expense varies from the amounts that would be computed by applying the basic federal and provincial income tax rates aggregating 30.8% (2010 – 32.8%) to earnings before income taxes, as shown in the following table:

	2011	2010
Tax applied to earnings before income taxes	$1,058,860	$ 754,034
Increase (decrease) in taxes resulting from:		
Permanent differences	4,073	5,044
Manufacturing and processing profits deduction	(13,600)	(23,644)
Impact of operating in a foreign country with a lower effective tax rate	(56,595)	46,122
Effect of tax rate change	(34,473)	(7,338)
Other	157,510	(65,449)
Income taxes	$1,115,775	$ 708,769
Effective income tax rate	32.46%	30.83%

8. Income taxes (continued):

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at January 31, 2011 and 2010 are presented below:

	2011	2010
Future income tax assets:		
Non-capital losses carried forward	$ 20,148	$ 29,212
Long-term retirement allowance	195,212	298,584
Future income tax liabilities:		
Property, plant and equipment	(854,424)	(727,522)
Net future income tax liability	$ (639,064)	$ (399,726)
Current future income tax asset	$ 58,188	$ 83,130
Long-term future income tax liability	(697,252)	(482,856)
Net future income tax liability	$ (639,064)	$ (399,726)

Unutilized non-capital losses expire as follows:

2015	$ 19,269
2027	10,051
2029	6,478
2030	3,056
2031	32,899
	$ 71,753

9. Related party transactions:

(a) Included in accounts payable and accrued liabilities are amounts due to senior officers in the amount of $24,413 (2010 - $75,663), which are non-interest bearing and unsecured.

(b) The five-year notes receivable for share capital were taken back from two senior officers who were provided with the financing to exercise their options on 500,000 common shares of the Company at a price of $0.93 per share. These notes were secured by the acquired common shares, bore interest that was paid monthly at the rate charged to the Company on its operating line of credit, and provided for principal repayments of $116,250 in each of the calendar years 2007, 2008, 2009 and 2010. The notes were fully repaid by January 31, 2011. The notes receivable have been included as a reduction of shareholders' equity for presentation purposes of the fiscal 2010 year, when they were still outstanding.

10. Retirement allowance:

During the second quarter ended July 31, 2009, the Executive Chairman of the Company advised the Board of Directors (the "Board") of his desire to retire from the Company effective June 30, 2009. In recognition of his exceptional contribution as co-founder of the Company and his extraordinary service over a period of almost 25 years, the Board awarded the Executive Chairman a special retirement allowance. In determining the amount of the special retirement allowance, the Board retained the services of Mercer (Canada) Limited ("Mercer"), an independent third party consulting firm, to provide market based commentary on retirement compensation strategies. Based on Mercer's report, the allowance was set at a net present value of $1,600,000. The allowance is payable over five years, with $300,000 paid in the current year (2010 - $560,000) and $300,000 scheduled to be repaid in each of the next three years.

11. Segmented information:

Magnotta's sole significant business segment is the production and sale of wine and wine juice products. Magnotta operates primarily in Canada and has a vineyard in Chile.

Information on net sales and identifiable property, plant and equipment by geographic region is as follows:

	2011	2010
Net sales:		
Canada	$ 22,089,670	$ 23,310,594
Chile	779,145	757,859
Other	354,989	104,356
	$ 23,223,804	$ 24,172,809
Property, plant and equipment:		
Canada	$ 17,109,493	$ 17,443,050
Chile	2,975,620	3,025,675
	$ 20,085,113	$ 20,468,725

12. Financial instruments and risk management:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, retirement allowance and long-term debt. The fair values of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities as recorded in the consolidated balance sheets approximate their carrying amounts due to the short-term maturities of these financial instruments. The estimated fair value of the long-term debt approximates its carrying value since the long-term debt is subject to terms and conditions similar to those available to the Company for instruments with comparable terms and the interest rates are market based. The carrying value of the retirement allowance approximates fair value because the future cash flows have been discounted using a risk adjusted discount rate.

The carrying amounts of the financial instruments as at January 31, 2011 as follows:

	Loans and receivables/ other Financial liabilities	Carrying Amount	Fair Value	Hierarchy
Financial Assets:				
Accounts Receivables	$ 616,797	$ 616,797	$ 616,797	Level 1
Financial Liabilities				
Accounts Payable and Accrued liabilities	1,167,308	1,167,308	1,167,308	Level 1
Bank Indebtedness	4,979,570	4,979,570	4,979,570	Level 1
Long Term Debt	5,947,398	5,947,398	5,947,398	Level 2
Retirement Allowance	740,000	740,000	740,000	Level 2
Net Financial Liabilities	$12,217,479	$12,217,479	$12,217,479	

The carrying amounts of the financial instruments as at January 31, 2010 as follows:

	Loans and receivables/ other Financial liabilities	Carrying Amount	Fair Value	Hierarchy
Financial Assets:				
Accounts Receivables	$ 590,322	$ 590,322	$ 590,322	Level 1
Financial Liabilities				
Accounts Payable and Accrued liabilities	1,568,495	1,568,495	1,568,495	Level 1
Bank Indebtedness	5,249,398	5,249,398	5,249,398	Level 1
Long Term Debt	6,707,725	6,707,725	6,707,725	Level 2
Retirement Allowance	1,040,000	1,040,000	1,040,000	Level 2
Net Financial Liabilities	$13,975,296	$13,975,296	$13,975,296	

Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 reflects valuation based on quoted prices observed in active markets for identical assets or liabilities.

Level 2 reflects valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 reflects valuation techniques with significant unobservable market inputs. There were no financial instruments categorized in level 3.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Company has exposure to the following risks from its use of financial instruments and manages these risk exposures as follows:

(a) Credit risk:

Credit risk refers to the risk of losses due to failure of the Company's customers to meet their payment obligations. The Company primarily sells through its retail winery locations, and is not dependent on any one single customer for a significant portion of its revenue. Furthermore, most payment is received through debit card, credit card or cash. Most wholesale sales are provided on credit to its customers in the normal course of business; however, the Company is exposed to limited credit risk with respect to its accounts receivable. Exposure to credit risk varies due to the composition of individual balances. Monitoring of customers and balances is performed regularly and allowances are provided for any potentially uncollectible accounts receivable.

The aging of accounts receivable at the reporting date was as follows:

	2011	2010
0 to 60 days	$ 479,736	$ 517,387
61 to 90 days	68,402	26,184
Greater than 90 days	85,367	63,459
	633,505	607,030
Allowance for doubtful accounts	(16,708)	(16,708)
	$ 616,797	$ 590,322

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they come due. The Company manages liquidity risk by monitoring sales volumes and cash receipts to ensure sufficient cash flows are generated from operations to meet the liabilities when they become due. Management monitors consolidated cash flows on a weekly basis, quarterly through forecasting and annually through the budget process. The Company believes its current cash flow from operations will continue to meet current and foreseeable financial requirements.

(c) Interest rate risk:

Interest rate risk refers to the risk that the value of the financial instruments or cash flows associated with the instruments will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk as the Company's net bank indebtedness and approximately 4.2% of the total long-term debt bear interest at a variable rate linked to Canadian prime. All other long-term debt bears interest at fixed rates. A change of 1.0% in all variable interest rate debt, including net bank indebtedness, would have an effect of approximately $52,000 on the Company's consolidated earnings for the year ended January 31, 2011.

(d) Foreign exchange risk:

Foreign exchange risk refers to the risk that value of the financial instruments or cash flows associated with the instruments will fluctuate due to changes in the foreign exchange rates. The Company purchases some bulk wine, wine juice, concentrates and some production equipment in U.S. dollars. It receives its revenue in Canadian dollars. As a result, it is impacted by fluctuations in foreign exchange rates. A $0.01 change in the Canadian/U.S. exchange rate would have impacted the cash flow of the Company for the year ended January 31, 2011 by approximately $12,000. The Company considers this risk to be limited and does not hedge its foreign exchange exposure.

12. Financial instruments and risk management (continued):

(e) Capital risk management:

The Company's objectives are to manage capital in a manner which balances equity and debt, to maintain compliance with its financial covenants and to maintain a capital base so as to sustain future growth. The Company defines its capital structure to include shareholders' equity, long-term debt, bank indebtedness and cash and cash equivalents.

The Company manages its capital structure as determined by management and approved by the Board. The Company's practice is to make adjustments to its capital structure based on changes in economic conditions and planned requirements. The Company has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt or balance equity, and making adjustments to its capital expenditure program.

13. Commitments:

Magnotta leases facilities under long-term operating leases. The aggregate minimum future annual lease payments are as follows:

2012	$ 89,820
2013	80,688
2014	80,688
2015	67,246
2016	-
	$ 318,442

The annual rental payments are exclusive of property taxes, maintenance and other common costs, which are subject to escalation clauses.