Consolidated Financial Statements of

MAGNOTTA WINERY CORPORATION

Years ended January 31, 2008 and 2007

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Magnotta Winery Corporation as at January 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2008 and 2007 and the results of its operations and its 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 16, 2008

MAGNOTTA WINERY CORPORATION

Consolidated Balance Sheets

January 31, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 344,231	$ 210,496
Accounts receivable	285,995	396,397
Inventories (note 2)	25,108,695	22,760,567
Income taxes receivable	1,918	–
Future income taxes (note 8)	51,208	11,743
Prepaid expenses and deposits	240,526	280,142
	26,032,573	23,659,345
Capital assets (note 3)	21,141,229	21,768,993
Winery licenses	251,516	251,516
	$ 47,425,318	$ 45,679,854
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 4)	$ 5,536,786	$ 5,610,864
Accounts payable and accrued liabilities	704,514	790,565
Income taxes payable	–	176,790
Current portion of long-term debt (note 5)	850,027	783,886
	7,091,327	7,362,105
Long-term debt (note 5)	7,238,694	7,949,860
Future income taxes (note 8)	932,046	978,147
Shareholders' equity:		
Share capital (note 6)	6,961,617	6,961,617
Notes receivable for share capital (note 9(b))	(348,750)	(465,000)
Other paid-in capital	210,000	210,000
Retained earnings	25,340,384	22,683,125
	32,163,251	29,389,742
Commitments (note 12)		
	$ 47,425,318	$ 45,679,854

See accompanying notes to consolidated financial statements.

On behalf of the Board:

____________________________ Director

____________________________ Director

MAGNOTTA WINERY CORPORATION

Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

Years ended January 31, 2008 and 2007

	2008	2007
Net sales	$ 23,391,225	$ 22,955,623
Cost of goods sold	12,190,241	12,025,843
Gross profit	11,200,984	10,929,780
Expenses:		
Selling, administration and other	4,916,897	4,529,282
Depreciation	1,296,786	1,335,131
Interest:		
Long-term debt	535,152	595,654
Bank indebtedness	327,228	316,479
	7,076,063	6,776,546
Earnings before income taxes	4,124,921	4,153,234
Income taxes (recovery) (note 8):		
Current	1,553,228	1,399,222
Future	(85,566)	(81,113)
	1,467,662	1,318,109
Net earnings and comprehensive income	2,657,259	2,835,125
Retained earnings, beginning of year	22,683,125	19,848,000
Retained earnings, end of year	$ 25,340,384	$ 22,683,125
Earnings per common share (note 7):		
Basic	$ 0.20	$ 0.21
Diluted	0.19	0.20

See accompanying notes to consolidated financial statements.

MAGNOTTA WINERY CORPORATION

Consolidated Statements of Cash Flows

Years ended January 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Net earnings	$ 2,657,259	$ 2,835,125
Items not involving cash:		
Depreciation	1,296,786	1,335,131
Future income taxes	(85,566)	(81,113)
Unrealized foreign exchange loss	14,173	5,198
Change in non-cash operating working capital:		
Accounts receivable	110,402	(48,728)
Inventories	(2,348,128)	(2,254,898)
Prepaid expenses and deposits	39,616	391,819
Accounts payable and accrued liabilities	(86,051)	(499,250)
Income taxes receivable/payable	(178,708)	46,036
	1,419,783	1,729,320
Financing:		
Decrease in long-term debt	(659,198)	(1,430,183)
Repayment of notes receivable for share capital	116,250	–
Issuance of share capital	–	330,800
Increase (decrease) in bank indebtedness	(74,078)	642,530
	(617,026)	(456,853)
Investments:		
Purchase of capital assets	(669,022)	(1,273,124)
Increase (decrease) in cash and cash equivalents	133,735	(657)
Cash and cash equivalents, beginning of year	210,496	211,153
Cash and cash equivalents, end of year	$ 344,231	$ 210,496
Supplemental cash flow information:		
Interest paid	$ 880,324	$ 897,767
Income taxes paid	1,731,936	1,556,864

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 vineyard locations in Ontario, Canada and Chile. The wine is sold through its retail locations in Ontario, Canada. The Company also produces beer, spirits and juice for wine making and sells them through its retail locations. 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 include the accounts of Magnotta and its subsidiaries. All significant 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:

Finished goods and work in process are valued at the lower of cost and market value, on a first-in, first-out basis. Cost includes attributable direct costs and manufacturing overhead. Supplies and raw materials are valued at the lower of cost and replacement cost. .

(d) Capital assets:

Capital assets are recorded at cost less accumulated depreciation. Depreciation is provided at rates intended to write off the assets over their estimated useful lives as follows:

Asset	Basis	Rate
Vineyards	Straight line	5%
Buildings	Declining balance	4%
Equipment	Declining balance	10% - 30%
Leasehold improvements	Straight line	Over lease term

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

1. Significant accounting policies (continued):

Capital assets 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, with any impairment recognized in earnings. The carrying value of the winery licenses is compared to its fair value on an annual basis. Management has determined that there is no impairment in the value of the winery licenses as at January 31, 2008.

(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 to customers through its retail locations are 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.

1. Significant accounting policies (continued):

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 taken to earnings.

(h) Future 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.

(i) Earnings per common share:

Basic earnings per common share are calculated using the weighted average number of common shares outstanding in the year. The dilutive effect of outstanding stock options is reflected in diluted earnings per share by application of the treasury stock method, which assumes proceeds received from the exercise of stock options are used to purchase common shares at the average market price during the year. Diluted earnings per share are calculated only for those stock options, both vested and unvested, that have option prices below the average market price in the reporting year. The resulting incremental shares are included in the denominator of the diluted earnings per share calculation.

(j) Stock-based compensation:

The Company uses the fair value-based method to account for employee and non-employee stock options beginning January 1, 2004 for stock options granted on or after February 1, 2002. Under the fair value method, compensation cost is measured at the fair value at the date of grant and is expensed over the award's vesting period. No adjustment was required to reflect the adoption of this new standard since no options have been issued since February 1, 2002.

1. Significant accounting policies (continued):

(k) Adoption of new accounting standards:

Effective February 1, 2007, the Company adopted the new standards for financial instruments in accordance with various sections of The Canadian Institute of Chartered Accountants' ("CICA") Handbook, including Section 3855, Financial Instruments - Recognition and Measurement, Section 3861, Financial Instruments - Disclosure and Presentation, Section 1530, Comprehensive Income, and Section 3251, Equity. The primary requirements of these standards require the classification of financial assets into either held-for-trading, held-to-maturity, loans and receivables or available-for-sale financial assets and the classification of financial liabilities as either held-for-trading or other liabilities. The new standards require that financial assets and liabilities be measured in accordance with their respective basis of classification. In addition, derivatives embedded in financial instruments or other contracts may be required to be accounted for separately under the new standards.

Under adoption of these new standards, the Company classified accounts receivable as loans and receivables, which are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

The Company adopted a transition date of February 1, 2003 for embedded derivatives and, accordingly, only recognized those embedded derivatives requiring separation from host contracts issued, acquired or substantially modified to this transition date.

There were no derivatives or embedded derivatives recognized in the Company's consolidated financial statements as a result of the adoption of these new standards.

Comprehensive income was added to the Company's consolidated financial statements. There is no difference between the Company's comprehensive income and net earnings for the year ended January 31, 2008. The Company does not currently have any accumulated other comprehensive income.

Effective February 1, 2007, the Company adopted the revised Section 1506, Accounting Changes, relating to changes in accounting policies, changes in accounting estimates and errors. Adoption of these recommendations had no effect on the consolidated financial statements for the year ended January 31, 2008, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the Company because they are not effective until a future date.

1. Significant accounting policies (continued):

(l) Future accounting standards:

On December 1, 2006, the CICA issued three new accounting standards: Section 1535, Capital Disclosures, Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. These standards are effective for interim and annual financial statements for the Company's fiscal year beginning on February 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. New Section 3862 and Section 3863 replace Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In March 2007, the CICA approved Section 3031, Inventories, which replaces the existing Section 3030, Inventories. This standard is effective for interim and annual financial statements for the Company's fiscal year beginning on February 1, 2008. The standard provides more guidance on the measurement and disclosure requirements for inventories.

In January 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill, and Other Intangible Assets. This standard removes guidance in Section 1000, Financial Statement Concepts, that was interpreted as permitting the recognition of an asset that would not otherwise meet the definition of an asset (i.e. the matching concept) and inserts guidance to clarify the distinction between assets and expenses. This standard is effective for annual and interim financial statements for the Company's fiscal year beginning on February 1, 2008.

The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

(m) 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.

2. Inventories:

	2008	2007
Supplies and raw materials	$ 6,483,992	$ 5,324,274
Work in process	12,980,275	12,343,659
Finished goods	5,644,428	5,092,634
	$ 25,108,695	$ 22,760,567

3. Capital assets:

2008	Cost	Accumulated depreciation	Net book value
Land	$ 1,675,182	$ –	$ 1,675,182
Land and vineyards	7,317,199	97,600	7,219,599
Buildings	7,546,730	2,138,365	5,408,365
Equipment	16,536,070	10,112,271	6,423,799
Leasehold improvements	2,038,139	1,623,855	414,284
	$ 35,113,320	$ 13,972,091	$ 21,141,229

2007	Cost	Accumulated depreciation	Net book value
Land	$ 1,675,182	$ –	$ 1,675,182
Land and vineyards	6,993,824	71,200	6,922,624
Buildings	7,546,730	1,892,463	5,654,267
Equipment	16,261,663	9,267,192	6,994,471
Leasehold improvements	1,946,936	1,424,487	522,449
	$ 34,424,335	$ 12,655,342	$ 21,768,993

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 operating line of credit of $11,500,000. The operating line of credit is due on demand and bears interest at bank prime plus 0.25% (2007 - 0.50%) 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.

5. Long-term debt:

	2008	2007
Term loan, bearing interest at prime plus 1%, secured by a general security agreement covering all assets except real property, maturing December 2008. Company is required to comply with certain financial covenants	$ 105,657	$ 177,741
First mortgages, at a fixed rate of 6.25%, secured by certain land, buildings and vineyards, maturing August 2008 and September 2008. The loans have not all been classified as current because the lenders have notified the Company that they will be renewing the loans upon maturity	3,924,120	4,253,431
Second mortgage, bearing interest at the bank's prime plus a blended rate of 0.5%, secured by certain land, buildings and vineyards, maturing June 2010	664,085	746,561
Third mortgages, at a fixed rate of 6.50%, secured by certain land, buildings and vineyards, maturing October 2011	942,199	1,004,652
Third mortgages, bearing interest at the bank's prime plus a fixed rate of 1.0%, secured by certain land, buildings and vineyards, maturing January 2011	353,166	373,166
Third mortgage, bearing interest at the bank's prime plus a blended rate of 1.0%, secured by certain land, buildings and vineyards, maturing July 2010	1,750,000	1,850,000
Mortgage, bearing interest at a rate of 6.29%, secured by land, vineyard and buildings in Melipilla, Chile, repayable in Chilean UF 6,358 (2007 - UF 6,358), maturing March 2010	286,012	252,677
Other loans	63,482	75,518
	8,088,721	8,733,746
Less current portion	850,027	783,886
	$ 7,238,694	$ 7,949,860

5. Long-term debt (continued):

The aggregate maturities of long-term debt for each of the five years subsequent to January 31, 2008 are as follows:

2009	$ 850,027
2010	736,726
2011	3,701,836
2012	431,609
2013	2,368,523
	$ 8,088,721

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 capital consists of an unlimited number of common shares issued as follows:

	Number	Amount
Balance, January 31, 2006	13,670,005	$ 6,630,817
Exercise of options:		
Director options	12,000	10,800
Non-employee options (d)	250,000	320,000
	262,000	330,800
Balance, January 31, 2007 and 2008	13,932,005	$ 6,961,617

(b) Options:

Magnotta had reserved 262,000 common shares pursuant to an Employee Stock Option Plan (the "Plan"). Options to purchase common shares of Magnotta under the Plan may have been granted by the Board of Directors to certain full-time employees and directors of Magnotta. All employee stock options outstanding vested at a rate of 20% per annum cumulatively on the anniversary of the date granted. These options were exercised during 2007.

6. Share capital (continued):

(c) A summary of the status of the Plan and the changes during the years are presented below:

	2008		2007	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of year	–	$ –	262,000	$ 1.26
Exercised	–	–	(262,000)	1.26
Options outstanding, end of year	–	–	–	–
Options exercisable, end of year	–	–	–	–

(d) On June 5, 2001, Magnotta issued 250,000 stock options to a non-employee for services rendered. These stock options had an exercise price of $1.28 per share, an expiry date of June 5, 2006, and vested immediately upon being granted. These options were exercised during 2007.

7. Earnings per common share:

	2008			2007		
	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	$ 2.66	13.54	$ 0.20	$ 2.84	13.42	$ 0.21
Shares secured by notes receivable	–	0.38	(0.01)	–	0.50	(0.01)
Diluted net earnings per common share	$ 2.66	13.92	$ 0.19	$ 2.84	13.92	$ 0.20

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 35.9% (2007 - 36.1%) to earnings before taxes, as shown in the following table:

	2008	2007
Tax applied to earnings before income taxes	$ 1,480,847	$ 1,499,317
Increase (decrease) in taxes resulting from:		
Permanent differences	24,719	22,686
Manufacturing and processing profits deduction	(32,261)	(35,356)
Impact of operating in a foreign country with a lower effective tax rate	(62,827)	(73,288)
Other	132,246	(95,250)
Effect of tax rate change	(75,062)	–
Income taxes	$ 1,467,662	$ 1,318,109
Effective income tax rate	35.6%	31.7%

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at January 31, 2008 and 2007 are presented below:

	2008	2007
Future income tax assets:		
Non-capital losses carried forward	$ 152,074	$ 168,895
Future income tax liabilities:		
Capital assets	1,032,912	1,135,299
Net future income tax liability	$ (880,838)	$ (966,404)
Current future income tax asset	$ 51,208	$ 11,743
Long-term future income tax liability	932,046	978,147
Net future income tax liability	$ (880,838)	$ (966,404)

8. Income taxes (continued):

Unutilized non-capital losses expire as follows:

2009	$ 153,043
2010	38,122
2011	93,015
2015	19,269
2027	131,875
2028	19,164
	$ 454,488

9. Related party transactions:

(a) Included in accounts payable are amounts due to senior officers in the amount of $97,106 (2007 - $73,995), which are non-interest bearing and unsecured.

(b) The five-year notes receivable 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 are secured by the acquired common shares, bear interest that is paid monthly at the rate charged to the Company on its operating line of credit, and provide for principal repayments of $116,250 in each of the calendar years 2007, 2008, 2009 and 2010. The notes receivable have been included as a reduction of shareholders' equity for presentation purposes.

10. 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 capital assets by geographic region is as follows:

	2008	2007
Net sales:		
Canada	$ 22,882,799	$ 22,303,646
Chile	117,423	197,509
Other	391,003	454,468
	$ 23,391,225	$ 22,955,623
Capital assets:		
Canada	$ 18,341,750	$ 18,974,272
Chile	2,799,479	2,794,721
	$ 21,141,229	$ 21,768,993

11. Financial instruments:

(a) The fair values of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their carrying amounts because of the short term to maturity of these financial instruments. The fair value of long-term debt, which has variable and fixed interest rates based on market rates, approximates the carrying amount of those financial instruments.

(b) Magnotta operates internationally, giving rise to exposure to market risks from changes in interest rates, foreign exchange rates and commodity prices.

12. Commitments:

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

2009	$ 116,102
2010	108,550
2011	102,915
2012	89,820
2013	80,688
Thereafter	147,928
	$ 646,003

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

13. Comparative figures:

Certain 2007 figures have been reclassified to conform with the financial statement presentation adopted in 2008.