Consolidated Financial Statements of

MAGNOTTA WINERY CORPORATION

Years ended January 31, 2009 and 2008

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Magnotta Winery Corporation as at January 31, 2009 and 2008 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, 2009 and 2008 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 24, 2009

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MAGNOTTA WINERY CORPORATION

Consolidated Balance Sheets

January 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ –	$ 344,231
Accounts receivable	260,800	285,995
Inventories (note 2)	27,847,603	25,108,695
Income taxes receivable	465,620	1,918
Future income taxes (note 8)	4,453	51,208
Prepaid expenses and deposits	247,038	240,526
	28,825,514	26,032,573
Property, plant and equipment (note 3)	21,092,890	21,141,229
Winery licenses	251,516	251,516
	$ 50,169,920	$ 47,425,318
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 4)	$ 5,881,325	$ 5,536,786
Accounts payable and accrued liabilities	1,137,033	704,514
Current portion of long-term debt (note 5)	784,920	850,027
	7,803,278	7,091,327
Long-term debt (note 5)	6,616,380	7,238,694
Future income taxes (note 8)	826,832	932,046
Shareholders' equity:		
Share capital (note 6)	6,961,617	6,961,617
Notes receivable for share capital (note 9(b))	(232,500)	(348,750)
Other paid-in capital	210,000	210,000
Retained earnings	27,984,313	25,340,384
	34,923,430	32,163,251
Commitments (note 12)		
	$ 50,169,920	$ 47,425,318

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"signed" Gabe Magnotta Director

"signed" Rossana Di Zio Magnotta Director

MAGNOTTA WINERY CORPORATION

Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings

Years ended January 31, 2009 and 2008

	2009	2008
Net sales	$ 24,046,671	$ 23,391,225
Cost of goods sold, excluding amortization of property, plant and equipment	14,172,992	13,158,084
Amortization of property, plant and equipment (production)	511,764	651,794
Total cost of goods sold	14,684,756	13,809,878
Gross profit	9,361,915	9,581,347
Expenses:		
Selling, administration and other	4,400,094	3,949,054
Amortization of property, plant and equipment (non-production)	698,676	644,992
Interest:		
Long-term debt	449,700	535,152
Bank indebtedness	184,714	327,228
	5,733,184	5,456,426
Earnings before income taxes	3,628,731	4,124,921
Income taxes (recovery) (note 8):		
Current	1,043,261	1,553,228
Future	(58,459)	(85,566)
	984,802	1,467,662
Net earnings and comprehensive income	2,643,929	2,657,259
Retained earnings, beginning of year	25,340,384	22,683,125
Retained earnings, end of year	$ 27,984,313	$ 25,340,384
Earnings per common share (note 7):		
Basic	$ 0.19	$ 0.20
Diluted	0.19	0.19

See accompanying notes to consolidated financial statements.

MAGNOTTA WINERY CORPORATION

Consolidated Statements of Cash Flows

Years ended January 31, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net earnings	$ 2,643,929	$ 2,657,259
Items not involving cash:		
Amortization of property, plant and equipment	1,210,440	1,296,786
Future income taxes	(58,459)	(85,566)
Unrealized foreign exchange loss	76,032	14,173
Change in non-cash operating working capital:		
Accounts receivable	25,195	110,402
Inventories	(2,738,908)	(2,348,128)
Income taxes receivable/payable	(463,702)	(178,708)
Prepaid expenses and deposits	(6,512)	39,616
Accounts payable and accrued liabilities	432,519	(86,051)
	1,120,534	1,419,783
Financing:		
Decrease in long-term debt	(763,453)	(659,198)
Repayment of notes receivable for share capital	116,250	116,250
Increase (decrease) in bank indebtedness	344,539	(74,078)
	(302,664)	(617,026)
Investments:		
Purchase of property, plant and equipment	(1,162,101)	(669,022)
Increase (decrease) in cash and cash equivalents	(344,231)	133,735
Cash and cash equivalents, beginning of year	344,231	210,496
Cash and cash equivalents, end of year	$ –	$ 344,231
Supplemental cash flow information:		
Interest paid	$ 730,822	$ 880,324
Income taxes paid	1,506,963	1,731,936

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 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.

Effective February 1, 2008, the Company adopted The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3031, Inventories ("CICA 3031"), as described in note 1(k).

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 licences 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, 2009.

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.

1. Significant accounting policies (continued):

(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.

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 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 is 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) 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.

1. Significant accounting policies (continued):

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.

(k) Adoption of new accounting standards:

(i) Inventories:

On February 1, 2008, the Company adopted CICA Handbook Section 3031. Section 3031 establishes standards for measurement and disclosure of inventories. This new standard requires the measurement of inventories at the lower of cost and net realizable value and provides guidance on the determination of cost, including allocation of depreciation, overheads and other costs to inventories. The new standard also requires additional disclosures, including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the year, write-downs and the amount of any reversal of any write-downs recognized as a reduction of expenses. As a result of the new standard, amortization of production-related property, plant and equipment is now included in the cost of goods sold.

(ii) Capital management:

Effective February 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed. The Company has complied with the new disclosure requirements as presented in note 11.

(iii) Financial instruments:

Effective February 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments - Disclosures, and CICA Handbook Section 3863, Financial Instruments - Presentation, which replaces CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation ("CICA 3861"). The new standards require increased disclosure of risks associated with recognized and unrecognized financial instruments and how those risks are managed. The standards carried forward the former presentation requirements of CICA 3861. The Company has complied with the new disclosure requirements as presented in note 11.

1. Significant accounting policies (continued):

Effective February 1, 2007, the Company adopted the new standards for financial instruments in accordance with various sections of the 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 designated its cash and cash equivalents as held-for-trading, which are measured at fair value and 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 in each of the years ended January 31, 2009 and 2008. The Company does not currently have any accumulated other comprehensive income.

(iv) Credit risk and fair value of financial assets and financial liabilities:

In January 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of the new standard did not have a significant impact on the consolidated financial statements.

1. Significant accounting policies (continued):

(l) Future accounting standards:

(i) Goodwill and intangible assets:

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces Handbook Section 3062, Goodwill and Other Intangible Assets, and Handbook Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing February 1, 2009. The Company is assessing the impact of the new standard on its consolidated financial statements.

(ii) 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 January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The new standards would only apply to the Company if it enters into a business combination.

1. Significant accounting policies (continued):

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

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that significantly affects financial reporting requirements for Canadian public companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period.

In February 2008, the 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 2012, the Company will provide unaudited consolidated financial information in accordance with IFRS including comparative figures for 2011.

The Company is completing a preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP, however, management has not yet finalized its determination of the impact of these differences on the consolidated financial statements. As this assessment is finalized, the Company intends to disclose such impacts in its future consolidated financial statements.

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

2. Inventories:

	2009	2008
Supplies and raw materials	$ 7,468,080	$ 6,483,992
Work in process	14,263,574	12,980,275
Finished goods	6,115,949	5,644,428
	$ 27,847,603	$ 25,108,695

3. Property, plant and equipment:

2009	Cost	Accumulated amortization	Net book value
Land	$ 1,675,182	$ –	$ 1,675,182
Land and vineyards	7,798,550	124,000	7,674,550
Buildings	7,559,062	2,383,384	5,175,678
Equipment	17,211,102	10,896,454	6,314,648
Leasehold improvements	2,049,559	1,796,727	252,832
	$ 36,293,455	$ 15,200,565	$ 21,092,890

2008	Cost	Accumulated amortization	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

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, bears interest at bank prime plus 0.25% (2008 - 0.25%) 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, 2009.

5. Long-term debt:

	2009	2008
Term loan, which bore interest at prime plus 1% and was secured by a general security agreement covering all assets except real property, matured December 2008	$ –	$ 105,657
First mortgages, at a fixed blended rate of 5.70% (2008 - 6.25%), secured by certain land, buildings and vineyards, maturing August 2013 and September 2013	3,570,876	3,924,120
Second mortgage, bearing interest at the bank's prime plus a blended rate of 1.00% (2008 - 1.00%), secured by certain land, buildings and vineyards, maturing June 2010	570,398	664,085
Third mortgages, at a fixed rate of 6.50% (2008 - 6.50%), secured by certain land, buildings and vineyards, maturing October 2011	875,640	942,199
Third mortgages, bearing interest at the bank's prime plus a fixed rate of 1.00% (2008 - 1.00%), secured by certain land, buildings and vineyards, maturing January 2011	324,845	353,166
Third mortgage, bearing interest at the bank's prime plus a blended rate of 1.00% (2008 - 1.00%), secured by certain land, buildings and vineyards, maturing July 2010	1,650,000	1,750,000
Mortgage, bearing interest at a rate of 6.29% (2008 - 6.29%), secured by land, vineyard and buildings in Melipilla, Chile, repayable in Chilean UF 8,291 (2008 - UF 6,358), maturing December 2012	359,909	286,012
Other loans	49,632	63,482
	7,401,300	8,088,721
Less current portion	784,920	850,027
	$ 6,616,380	$ 7,238,694

The aggregate maturities of long-term debt for each of the five years subsequent to January 31, 2009 are as follows:

2010	$ 784,920
2011	3,637,400
2012	528,860
2013	540,286
2014	1,909,834
	$ 7,401,300

5. Long-term debt (continued):

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, 2008 and 2009	13,932,005	$ 6,961,617

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

(b) 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, 2009 and 2008.

7. Earnings per common share:

	2009			2008		
	Net earnings	Weighted average number of common shares	Per common share amount	Net earnings	Weighted average number of common shares	Per common share amount
	(millions)	(millions)		(millions)	(millions)	
Basic net earnings per common share	$ 2.64	13.66	$ 0.19	$ 2.66	13.54	$ 0.20
Shares secured by notes receivable	–	0.26	–	–	0.38	(0.01)
Diluted net earnings per common share	$ 2.64	13.92	$ 0.19	$ 2.66	13.92	$ 0.19

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 33.5% (2008 - 35.9%) to earnings before income taxes, as shown in the following table:

	2009	2008
Tax applied to earnings before income taxes	$ 1,215,625	$ 1,480,847
Increase (decrease) in taxes resulting from:		
Permanent differences	44,746	24,719
Manufacturing and processing profits deduction	(16,272)	(32,261)
Impact of operating in a foreign country with a lower effective tax rate	(64,625)	(62,827)
Effect of tax rate change	(16,390)	(75,062)
Other	(178,282)	132,246
Income taxes	$ 984,802	$ 1,467,662
Effective income tax rate	27.14%	35.60%

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at January 31, 2009 and 2008 are presented below:

	2009	2008
Future income tax assets:		
Non-capital losses carried forward	$ 92,275	$ 152,074
Future income tax liabilities:		
Property, plant and equipment	(914,654)	(1,032,912)
Net future income tax liability	$ (822,379)	$ (880,838)
Current future income tax asset	$ 4,453	$ 51,208
Long-term future income tax liability	(826,832)	(932,046)
Net future income tax liability	$ (822,379)	$ (880,838)

8. Income taxes (continued):

Unutilized non-capital losses expire as follows:

2010	$ 13,537
2011	87,602
2015	19,269
2027	131,875
2028	21,672
2029	4,545
	$ 278,500

9. Related party transactions:

(a) Included in accounts payable and accrued liabilities are amounts due to senior officers in the amount of $108,164 (2008 - $97,106), 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 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 property, plant and equipment by geographic region is as follows:

	2009	2008
Net sales:		
Canada	$ 22,865,429	$ 22,882,799
Chile	872,436	117,423
Other	308,806	391,003
	$ 24,046,671	$ 23,391,225
Property, plant and equipment:		
Canada	$ 18,013,135	$ 18,341,750
Chile	3,079,755	2,799,479
	$ 21,092,890	$ 21,141,229

11. 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 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.

11. Financial instruments and risk management (continued):

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:

	2009	2008
0 to 60 days	$ 201,825	$ 235,497
61 to 90 days	23,309	36,255
Greater than 90 days	50,558	19,809
	275,692	291,561
Allowance for doubtful accounts	(14,892)	(5,566)
	$ 260,800	$ 285,995

(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.

11. Financial instruments and risk management (continued):

(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 bears interest at a variable rate linked to Canadian prime, as well as approximately 34.4% of the total long-term debt bears interest at variable rates 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 $85,000 on the Company's consolidated earnings for the year ended January 31, 2009.

(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, 2009 by approximately $11,500 and the year ended January 31, 2008 by approximately $8,600. The Company considers this risk to be limited and does not hedge its foreign exchange exposure.

(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 of Directors. 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.

12. Commitments:

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

2010	$ 241,352
2011	129,849
2012	89,820
2013	80,688
2014	80,688
Thereafter	67,240
	$ 689,637

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

13. Comparative figures:

Certain 2008 figures have been reclassified to conform with the financial statement presentation adopted in 2009.