MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis dated April 30, 2009 reviews the financial condition, results of operations and cash flows of Magnotta Winery Corporation ("Magnotta" or the "Company") for the year ended January 31, 2009 in comparison to the year ended January 31, 2008. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes which can be found on SEDAR at www.sedar.com.

Readers are cautioned that some of the statements contained in this discussion may be forward-looking statements, such as expectations, estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition to exist or occur. Generally, these forward-looking statements can be identified by the use of terminology such as "outlook", "anticipate", "believe", "estimate", "expect", "intend", "should" and similar expressions. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ from those currently anticipated in such statements by reason of factors such as, but not limited to, changes in general economic and market conditions. Magnotta has no intention and undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or results, or otherwise.

CORPORATE PROFILE:

Magnotta Winery Corporation is Ontario's third largest winery in volume of sales. The Company grows grapes, produces, imports, exports and retails wines, beer, spirits and "must" (juice for making wine) primarily through its locations in Ontario, Canada. Additional sales are obtained through representatives in Canadian provinces, through an e-commerce website and from export markets.

The Company produces wines from grapes grown on its four vineyards totaling 180 acres in Ontario's Niagara Peninsula, on its 351 acre vineyard in Chile's Maipo Valley, and from purchased wines, wine juices and grapes. Grapes grown on its Ontario vineyards are entirely processed and vinified for the Company's own use. The grapes grown on the Chilean vineyard are also used by the Company for its own requirements, with excess being sold to Chilean wineries. However, since the Company's own vineyards do not satisfy all of its total wine and grape requirements, quality grapes, juices and wines are sourced from other Ontario Niagara Peninsula growers and from other countries and regions around the world.

Festa Juice Co. Ltd., one of the Company's wholly-owned subsidiaries, is one of Ontario's largest producers and suppliers of fresh juice to home wine-makers.

Magnotta justifiably brands itself as "The Award Winning Winery". The Company's awards include gold medals from the most prestigious of European wine competitions such as VinExpo (France) and Vinitaly (Italy).

THE YEAR IN REVIEW:

Throughout fiscal 2009, the Company continued its branding marketing campaign. Magnotta continued its extensive radio media campaign in Southern Ontario throughout the year, which it started in the latter part of fiscal 2008. It also continued with print, television, in-store newsletters and inserts, as well as trade shows and contests. This branding targets new customers as well as the Company's current customer base. In the latter part of the year and continuing into fiscal 2010, the marketing focus changed to emphasizing "value" to customers due to the "softening" of the general economic environment.

Throughout fiscal 2009, the Company continued to strengthen its balance sheet. The long-term debt facilities were reduced by $687,421 throughout the year through monthly debt repayments. Furthermore, the Company also renewed two of its mortgages that matured during the year. The total amount of these mortgages at maturity was $3,702,224 and had a fixed rate of 6.25% at maturity. The two mortgages were renewed at a weighted average fixed 5 year rate of 5.70%. The cash flow to decrease the overall debt on the balance sheet was generated from the Company's operations during fiscal 2009.

The Company continues to win awards for its products and for itself as a Company. Magnotta's current award count stands at over 3,000! Recent awards of significance that the Company is most proud of include two golds from the 2008 Vinalies Internationales in France for its 2006 Vidal Icewine Lake Erie North Shore Limited Edition and 2005 Cabernet Franc Icewine Limited Edition, and four golds from the 2008 Challenge International du Vin in France for its 2006 Cabernet Sauvignon Special Reserve, 2006 Vidal Sparking Ice Merrit Road Limited Edition, 2004 Chardonnay Special Reserve and 2004 Merlot Limited Edition. A further award that Magnotta just won in March 2009 was at Vinitaly 2009. The Company won a Grand Gold Medal in the Vini Spumanti Dolci category for its 2006 Vidal Sparkling Ice Merrit Road Limited Edition and received a special mention for its 2007 Gewurztraminer VQA Special Reserve and 2007 Chardonnay VQA Special Reserve in the still white wine category. Product awards are an essential matrix to the Company as it provides a benchmark on the quality of its products compared to its local and international competitors. During fiscal 2009, the Company was honoured for a third consecutive year as a Platinum recipient and the ninth consecutive year as a winner in the "Canada's 50 Best Program". This program honours and recognizes excellence in products, outstanding customer service and a motivated team of employees.

Fiscal 2009 was "known" for the "softening" of the general economic environment worldwide. People became more cautious on their spending and purchasing habits, as the global recession became more noticeable as the year progressed. The Company noticed some of this in the latter part of the year. The quick and rapid decline of the general economic environment caused customers to shift their purchasing habits to lower priced products which generally have lower margins.

SELECTED ANNUAL INFORMATION FOR THE PAST THREE FISCAL YEARS:

The following financial information is derived from Magnotta's financial statements for the years ended January 31, 2009, 2008, and 2007 which have been prepared in Canadian dollars using Canadian generally accepted accounting principles.

	2009	2008	2007
Net sales	$24,046,671	$23,391,225	$22,955,623
Net earnings	$ 2,643,929	$ 2,657,259	$ 2,835,125
Earnings per common share:			
Basic	$0.19	$0.20	$0.21
Diluted	$0.19	$0.19	$0.20
Total assets	$50,169,920	$47,425,318	$45,679,854
Long-term debt	$ 7,401,300	$ 8,088,721	$ 8,733,746
Net bank indebtedness	$ 5,881,325	$ 5,192,555	$ 5,400,368
Retained earnings	$27,984,313	$25,340,384	$22,683,125

Over the past three fiscal years described above, net sales have increased by approximately 4.8%, while net earnings have decreased by approximately 6.7%. This growth in net sales over the past three fiscal years resulted from increased overall sales volumes resulting from more targeted marketing and advertising campaigns, better point of sale materials, the relocation of a winery retail location in a prior year (which added approximately $143,000 in additional sales), and the relocation of a winery in a previous year (which added approximately $339,000 in additional sales). Net earnings decreased due to cost pressures from raw and packaging materials, energy costs, as well as higher Ontario grape prices. The "softening" of the general economic environment during the latter part of fiscal 2009 also contributed to lower earnings as people shifted to lower "value" priced products which generally have lower margins. Furthermore, increased selling, administration and other costs have lowered net earnings due to expanded marketing costs so to increase brand awareness. During the past three fiscal years, total debt has collectively decreased approximately $851,489 or 6.0%. Basic earnings per common share over the past three fiscal years has decreased $0.02 and diluted earnings per common share has decreased $0.01.

QUARTERLY RESULTS:

Summary information by quarter is as follows:

Fiscal 2009	Net Sales	Gross Profit Margin	Net Earnings	Earnings Per Share Basic	Diluted
First quarter	$ 6,063,409	$ 2,581,439	$ 867,790	$0.06	$0.06
Second quarter	$ 5,855,645	$ 2,609,017	$ 787,960	$0.06	$0.06
Third quarter	$ 7,290,507	$ 3,126,500	$ 921,713	$0.07	$0.07
Fourth quarter	$ 4,837,110	$ 1,044,959	$ 66,466	$0.00	$0.00
	$24,046,671	$ 9,361,915	$2,643,929	$0.19	$0.19

Fiscal 2008	Net Sales	Gross Profit Margin	Net Earnings	Earnings Per Share Basic	Diluted
First quarter	$ 5,949,046	$ 2,562,617	$ 843,295	$0.06	$0.06
Second quarter	$ 5,692,474	$ 2,500,293	$ 755,574	$0.05	$0.05
Third quarter	$ 7,150,558	$ 3,035,627	$ 917,671	$0.07	$0.07
Fourth quarter	$ 4,599,147	$ 1,482,810	$ 140,719	$0.02	$0.01
	$23,391,225	$ 9,581,347	$2,657,259	$0.20	$0.19

Commencing in fiscal 2009, the Company adopted CICA Handbook Section 3031 which establishes standards for measurement and disclosure of inventories. The 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. As a result of the new standard, amortization of production-related property, plant and equipment is now included in the cost of goods sold.

During the last eight most recently completed quarters, the Company has experienced relatively consistent net sales, net earnings and earnings per common share changes. For the fourth quarter of fiscal 2009 (the most recent quarter), net sales increased slightly to $4,837,110 from $4,599,147 for the fourth quarter of fiscal 2008. However, for the fourth quarter of fiscal 2009, the gross margin decreased to 21.6% from 32.2% for the same period of the prior year. This change was due to increased cost pressures for raw and packaging materials, energy costs, as well as higher Ontario grape prices. The gradual weakening of the Canadian dollar especially against the U.S. dollar in fiscal 2009, also provided for increased costs as U.S. denominated raw inputs became more expensive. Furthermore, the “softening” of the general economic environment caused customers to shift to lower priced “value” products which generally have lower margins.

During a typical year, the Company experiences seasonality in its sales. In fiscal 2009 and fiscal 2008, the Company experienced higher demand during September to December when approximately 40.5% respectively of annual sales were generated.

FOURTH QUARTER RESULTS

During the Company's most recent quarter ended January 31, 2009, Magnotta experienced a net sales increase and a net earnings decrease. Net sales in the fourth quarter increased approximately $237,963 over the same period in fiscal 2008, and net earnings decreased $74,253, while basic earnings per share decreased $0.02 and diluted earnings per share decreased $0.01. This change is due to the rapid decline of the general economic environment including Southern Ontario where the Company's sales are mostly generated. The Company has experienced customers shifting their purchasing patterns to lower priced "value" products which generally have lower margins. Furthermore, the Company also experienced cost pressures for raw and packaging materials, energy costs as well as higher Ontario grape prices. The gradual weakening of the Canadian dollar especially against the U.S. dollar also provided for increased costs as U.S. denominated raw inputs became more expensive.

RESULTS OF OPERATIONS:

	Three Months Ended January 31,		Year Ended January 31	
	2009	2008	2009	2008
Net sales	$4,837,110	$4,599,147	$24,046,671	$23,391,225
Gross profit margin	$1,044,959	$1,482,810	$ 9,361,915	$ 9,581,347
Net earnings	$ 66,466	$ 140,719	$ 2,643,929	$ 2,657,259
Earnings per common share:				
Basic	$0.00	$0.02	$0.19	$0.20
Diluted	$0.00	$0.01	$0.19	$0.19
Number of common shares	13,932,005	13,932,005	13,932,005	13,932,005

Net sales for the year increased 2.8% to $24,046,671 from $23,391,225, and for the fourth quarter, net sales increased to $4,837,110 from $4,599,147. Net earnings decreased to $2,643,929 from $2,657,259 for the year and for the fourth quarter decreased to $66,466 from $140,719 for the corresponding period of the prior year. The Company has been expanding its branding campaign through its marketing, advertising and point of sale materials, through a radio media campaign, as well as with its print, television and in-store newsletters, product sampling exhibits and trade shows, and contests. This has created more brand awareness and greater volumes. However, due to cost pressures and customers shifting to lower priced "value" products which have lower margins, net earnings decreased.

Overall gross profit margin for the year decreased to 38.9% in fiscal 2009 from 41.0% in fiscal 2008. For the fourth quarter, the gross profit margin decreased to 21.6% from 32.2% in the previous year. The change in the gross profit margin is due to increased cost pressures for raw and packaging materials, energy costs, as well as higher Ontario grape prices. The gradual weakening of the Canadian dollar especially against the U.S. dollar in fiscal 2009, also provided for increased costs as U.S. denominated raw inputs became more expensive. Furthermore, the "softening" of the general economic environment especially during the end of

fiscal 2009 has caused customers to shift to lower priced “value” products which have lower margins.

Selling, administration and other expenses were $4,400,094 for the year ended January 31, 2009 compared to $3,949,054 for the year ended January 31, 2008. For the fourth quarter, selling, administration and other expenses were $1,379,446 compared to $1,185,335 in the same period of the prior year. The Company has been expanding its marketing so to increase brand awareness and this resulted in an increase in selling, administration and other expenses. As a percentage of net sales, selling, administration and other expenses increased to 18.3% from 16.9% in fiscal 2008, and for the fourth quarter increased to 28.5% from 25.8% for the corresponding period of the prior year.

Total overall amortization of property, plant and equipment of which a substantial portion is now included as part of cost of goods sold as per the new CICA Handbook Section 3031 on Inventories since it pertains to the production of goods, decreased in fiscal 2009 to $1,210,440 from $1,296,786 in fiscal 2008, and for the fourth quarter it was $408,465 compared to $344,675 in the same period the prior year. The change resulted from fluctuations in capital asset investments, made over prior years, in the Company’s production equipment, vineyards and retail locations as well as the timing of the purchases of depreciable capital asset investments.

Interest expense for the year ended January 31, 2009 decreased to $634,414 from $862,380 in fiscal 2008. During the fourth quarter, interest expense was $23,720 compared to $157,368 for the same quarter last year. The decrease is due to lower long-term debt in fiscal 2009 compared to fiscal 2008, and lower overall interest rates on the Company’s operating line facility and long-term debt.

Earnings before interest, income taxes and amortization decreased to $5,473,585 from $6,284,087 in fiscal 2008. For the fourth quarter, earnings before interest, income taxes and amortization decreased to ($334,487) from $297,475 in fiscal 2008. These changes were principally driven by expense changes as outlined in the overall gross profit margin discussion, as well as in selling, administration and other expenses.

The Company is not dependent on any one single customer for a significant portion of its revenues. Most of the Company’s revenues and cash flows are generated from its retail winery locations with the balance being principally generated from wholesale accounts such as provincial liquor boards, and wholesale juice customers. Given the current economic climate, it is difficult to predict the future purchasing patterns of customers. However, the Company believes that given the nature of their products and their distribution network, significant revenue changes, due to overall consumer demand, is not anticipated. The Company believes a shift to its “value” priced products will continue until the general economic environment improves. The Company continues to monitor its revenues and expenses carefully.

The Company purchases its raw materials and products from many local and international suppliers. The nature of these products allows Magnotta to select the supplier based on the

best quality, service and cost. As a result, the Company is not dependent on a single supplier for any of its raw materials and products.

The combined basic federal and provincial income tax rates for the Company is 33.5%. However, due to the manufacturing and processing profits deduction, the utilization of non-capital losses during the year, a lower enacted statutory income tax rate, as well as lower effective tax rates in a foreign country, the effective income tax rate for fiscal 2009 was 27.1% versus 35.6% in fiscal 2008.

LIQUIDITY AND CAPITAL RESOURCES:

Year ended January 31	2009	2008
Current assets	$28,825,514	$26,032,573
Current liabilities	$ 7,803,278	$ 7,091,327
Shareholders' equity	$34,923,430	$32,163,251
Total assets	$50,169,920	$47,425,318

Contractual Obligations	Total	Less than one year - Fiscal 2010	One to three years - Fiscal 2011 to 2012	Four to five years - Fiscal 2013 to 2014	After five years Fiscal 2015 onward
Long-term debt	$ 7,401,300	$ 784,920	$4,166,260	$ 2,450,120	$ -
Long-term interest	$ 893,612	$ 398,712	$ 354,727	$ 140,173	$ -
Operating leases	$ 689,637	$ 241,352	$ 219,669	$ 161,376	$ 67,240
Total contractual obligations	$ 8,984,549	$1,424,984	$4,740,656	$ 2,751,669	$ 67,240

During the year, the Company generated $1,120,534 from operations after changes in non-cash operating working capital, compared to $1,419,783 generated in fiscal 2008. These levels of cash flows from operations are expected to continue into fiscal 2010. Net working capital increased to $21,022,236 from $18,941,246 at January 31, 2008 primarily from cash flow from operations net of debt repayments and purchases of property, plant and equipment.

Purchases of property, plant and equipment were $1,162,101 in fiscal 2009 compared to $669,022 in fiscal 2008. Purchases of property, plant and equipment in fiscal 2009 and 2008 were attributable to normal requirements for the Company's production equipment, vineyards and retail locations. It is expected during fiscal 2010, capital expenditures should not deviate significantly from those levels incurred during fiscal 2009. However, the Company is contemplating to relocate one of its retail store locations. If a suitable location is identified and moved into during fiscal 2010, capital expenditures could increase from those incurred in fiscal 2009.

During the year, inventory increased to $27,847,603 from $25,108,695 at January 31, 2008. The change resulted from higher raw and packaging materials, energy costs, as well as higher Ontario grape prices. The gradual weakening of the Canadian dollar especially against the

U.S. dollar also made U.S. denominated raw inputs higher in inventory. Furthermore, the "softening" of the general economic environment especially during the end of fiscal 2009, caused customers to purchase less higher valued inventory items as opposed to lower valued inventory items.

During the year, the Company decreased its long-term debt by $687,421 to $7,401,300 from $8,088,721 at January 31, 2008 excluding any foreign exchange changes. The Company increased its net bank indebtedness to $5,881,325 from $5,192,555 at January 31, 2008. These changes resulted from cash flows from net earnings for fiscal 2009, and monthly debt principal repayments, as well as net changes in working capital. Net bank indebtedness bears interest at floating interest rates, and approximately 34.4% of the total long-term debt bears interest at floating interest rates. The balance, or 65.6% of the long-term debt, bears interest at a fixed interest rate. The Company has available approximately $5,600,000 in unutilized approved lines of credit from a major Canadian chartered bank subject to covenant restrictions. Management expects its current cash flow from operations will continue to meet the Company's current debt and principal repayment obligations.

The Company has always operated with a net bank indebtedness balance, and this is expected to continue into fiscal 2010. One of the key factors in the net bank indebtedness balance is the Company's revenues. Most of the Company's revenues and cash flows are generated from its retail winery locations, and is not dependent on any one single customer for a significant portion of its revenues. As a result, operating cash flows and net bank indebtedness of the Company are reliant on the future purchasing patterns of the Company's loyal current and future customers. The Company does not expect material changes to these cash flows for the foreseeable future.

During fiscal 2009, the Company renewed two of its mortgages that matured during the year. These were secured by certain land, building and vineyards. The total amount of these mortgages at maturity was $3,702,224 and had a fixed rate of 6.25% at maturity. These two mortgages were renewed at a weighted average fixed 5 year rate of 5.70%. The Company does not have any other long-term debt maturing in fiscal 2010. The Company anticipates that the various long-term debt facilities maturing during fiscal 2011 which amount to $3,637,400 will be renewed with its current lenders. However, the interest rate upon renewal of these long-term debt facilities is not determinable at this time, as maturity is over a year away.

The Company's operating line facility, which is from a major Canadian Chartered bank, is reviewed annually. The current pricing on this facility is Canadian prime plus 0.25%. Given the current general economic climate, pricing on this facility could increase at the annual review. The Company has various ratios and covenants that it must abide by with its operating line and long-term facilities. The Company has ample room on all its ratios and covenants and is not close to breaching any of these ratios and covenants.

Shareholders' equity increased to $34,923,430 at January 31, 2009 from $32,163,251 at January 31, 2008. The change is due to an increase in retained net earnings. The basic earnings per common share have decreased $0.01 to $0.19 for the year and diluted earnings per share have remained constant at $0.19 for the year.

RISKS AND UNCERTAINTIES:

The following section outlines risks that may or may not affect the Company. While it is difficult to determine if any risk will occur and its effect on the Company, the actual impact on the Company could differ materially from what the Company is currently anticipating. Furthermore, the following risks outlined are not exhaustive and there could be other risks of which the Company is not currently aware.

Economic Climate

The current economic climate provides challenges to all companies. Individuals and companies worldwide are re-evaluating and adjusting their purchasing and spending habits to account for the new economic climate. A significant portion of Magnotta's total revenues are retail generated with the balance being wholesale and licensee revenue. The Company believes, given the current economic climate, it is difficult to predict the future purchasing patterns of customers. However, the Company believes that given the nature of their products and their distribution network, significant revenue changes due to overall consumer demand is not anticipated. The Company believes a shift to its "value" priced products will continue until the general economic environment improves. The Company continues to monitor its revenues and expenses carefully.

Government Regulation

The Company is uncertain as to when or what changes could occur to implement and design legislation to privatize liquor sales and distribution in Ontario. The Company does not believe any changes will occur in the immediate future.

In 2006 and 2008, the Company received administrative notices from the Alcohol and Gaming Commission of Ontario (the "AGCO") alleging that certain of Magnotta's smaller locations are not in compliance with AGCO policies and that, as a result, these locations may have their retail licenses temporarily suspended until such policies are complied with. The Company will contest these notices and is of the view that the allegations are without merit. Further, the Company is of the view that the potential suspensions, even if upheld, would not have a material adverse result on the business of the Company.

International

The alcoholic beverage industry internationally, and more particularly in Canada is intensely competitive. There are several larger and more established national and international corporations that possess extensive experience and financial resources. This industry has experienced and is expected to experience, increased levels of price-based competition.

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.

Competitive Factors

The wine beverage industry in Ontario is heavily regulated with many financial and regulatory barriers. Some existing Ontario wineries including Magnotta have grandfathered licenses that were issued prior to the NAFTA agreement in the late 1980s, while others have licenses issued post NAFTA which may restrict the winery's ability to expand. The Ontario government is not issuing any new retail licenses. As a result, a winery's ability to expand the number of physical retail locations in Ontario is dependent on acquiring appropriate winery licenses. In the event of the privatization of the LCBO, the Company might be subject to greater competition.

Foreign Exchange Rate

The Company purchases bulk wine, wine juice, concentrates and some of its production equipment in U.S. dollars. A change in the Canadian dollar versus the U.S. dollar will change the cost of these purchases. The recent weakening of the Canadian dollar versus the U.S. dollar will increase the cost of these U.S. denominated purchases; however, it will make export prices more favourable.

Supply

Magnotta relies upon a consistent high-quality supply of reasonably priced wines, juices and grapes both through domestic and foreign production. Cost and supply may be affected by factors such as weather, regional wine supplies, the general economic climate, as well as other conditions. The Company owns various vineyards which it relies upon to supply products to the market. Adverse weather conditions could affect crop yields and quality. The Company has taken steps to ensure that its required supplies are available to meet its requirements. Strategic acquisitions of vineyards in Ontario's Niagara Peninsula and Chile's Maipo Valley, as well as strong relationships with domestic and foreign growers and suppliers have aided the Company in these goals.

Manufacturing Facilities

Magnotta recognizes the importance of its manufacturing facilities. The significant stock, production capabilities and storage facilities would require some time to replace. Magnotta has comprehensive insurance to cover profit loss and building replacement at all its locations.

Product Development

Magnotta remains committed to developing new products and adjusting to the ever-changing markets within which it operates and competes. Failure to successfully develop new products in the future could have a material impact on the business.

Key Personnel

The Company has a strong and experienced management team. The operations could be negatively impacted in the short term by the absence of its senior executives.

OUTLOOK:

The Company's future success is linked to the Canadian, and more specifically, the Ontario wine markets. These markets have grown steadily in recent years, and are expected to continue to grow. The Company through its new product developments as well as its changes in its branding and marketing initiatives in the last few years, is determined to capitalize on this trend. However, given the current economic climate, it is difficult to predict the future purchasing patterns of customers. However, the Company believes that given the nature of their products and their distribution network, significant revenue changes, due to overall consumer demand is not anticipated. The Company believes a shift to its "value" priced products will continue until the general economic environment improves.

While the wine market as a whole is growing, the Company's ability to expand is limited. This is due to the industry's financial and regulatory barriers which restrict a winery's ability to expand the number of physical retail locations in Ontario. The Company is continuing to look for investment opportunities that support its strategic direction.

The Company brands itself as "The Award Winning Winery". Marketing initiatives and capital asset investments are made to support the Company's commitment to producing high quality wines. The Company believes these investments made in its existing locations will lead to increased sales and improved profitability.

RELATED PARTY TRANSACTIONS:

Five year notes receivable were received from two senior officers of the Company (the Executive Chairman and Chief Executive Officer / President) 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 monthly interest 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 remaining years 2009 and 2010. The notes receivable have been included as a reduction of shareholders' equity for presentation purposes.

ACCOUNTING POLICIES:

The Company has adopted the following new accounting standards:

(i) On February 1, 2008, the Company adopted CICA Handbook Section 3031. CICA 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) 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 of the consolidated financial statements.

(iii) 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 of the consolidated financial statements.

(iv) 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.

(v) 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.

RECENTLY ISSUED ACCOUNTING STANDARDS

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.

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.

International Financial Reporting Standards ("IFRS")

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (IFRS). IFRS will be required for Canadian publicly traded companies for years beginning on or after January 1, 2011. Magnotta will be required to report under IFRS beginning February 1, 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 if finalized, the Company intends to disclose such impacts in its future consolidated financial statements.

INTERNAL CONTROLS AND PROCEDURES

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparations and presentation.

The Company's management has evaluated the effectiveness of the design and operation of the Company's internal control over financial reporting as of the end of the period covered by this report based on the criteria set forth in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") for small business. The Company has appropriate mitigating controls over segregation of duties in consideration of the size and nature of the Company's business. Based on the result, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal controls over financial reporting are effective. There have been no changes in the Company's internal controls over financial reporting during the period that have materially affected, or are reasonable likely to materially affect, its internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief

Executive Officer (CEO)/President and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. As at January 31, 2009, Magnotta's management, with the participation of the CEO/President and CFO, has evaluated the effectiveness of Magnotta's disclosure controls and procedures and has concluded that such controls and procedures are effective.

CRITICAL ACCOUNTING ESTIMATES:

The preparation of the consolidated financial statements requires management to make estimates, judgments 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 revenues and expenses during the years. The Company's management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. Due to the inherent uncertainty involved with making such estimates, actual results may differ from those reported under difference assumptions or conditions.

Areas requiring the use of management estimates are as follows:

Provision for inventories – The valuation of inventory requires an estimate of obsolete or damaged inventory, as well as net realizable value. The Company assesses the valuation of its inventory throughout the year and records provisions when necessary.

Winery licenses – Winery licenses are intangibles and are subject to an annual impairment test or more frequently if events or circumstances indicate that the asset might be impaired. Management has reviewed the carrying amount of the winery licenses and has determined that there is no impairment in the value of the winery licenses at year-end.

Allowance for doubtful accounts – The Company establishes an appropriate provision for doubtful accounts. Estimates of recoverable amounts are based on best estimates of the amount a customer will pay. Actual amounts received may be affected by various factors, including the resolution of disputed amounts and the customer's financial condition. At year-end, the Company had an allowance for doubtful accounts of $14,892.

FINANCIAL INSTRUMENTS:

The estimated fair values of 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 estimated fair value of long-term debt which has variable interest rates based on market rates approximates the carrying amount of those financial instruments. The estimated fair value of Magnotta's other long-term debt with fixed interest rates approximates the carrying value since the interest rates approximate market rates. The Company has not recorded the impact in its financial statements of any unrecognized gains and/or losses on these financial instruments.

The Company does not use derivative instruments for hedging or for other purposes.

OUTSTANDING SHARE DATA

As of January 31, 2009 and as of the date hereof, there are issued and outstanding 13,932,005 common shares of the Company. The Company does not have any options, warrants or any other dilutive instruments outstanding.

OTHER:

Aside from this Management Discussion and Analysis, the Company files a yearly Annual Information Form (AIF), and this information as well as other documents filed with securities regulators in Canada can be found on SEDAR at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS:

The accompanying consolidated financial statements of Magnotta Winery Corporation have been prepared by management and approved by the Board of Directors. Management is responsible for the integrity of the information contained in the financial statements as well as other sections of the annual report. The financial statements have been prepared by management. To assist management in discharging their responsibilities, Magnotta maintains a system of internal controls. Management believes this system of internal control provides reasonable assurance that the financial records are reliable and form a proper basis for the preparation of financial statements as well as the safeguarding of assets.

The Board of Directors carries out its responsibilities for financial statements primarily through the Audit Committee. KPMG LLP (the Shareholders' auditors) have full access to the Audit Committee, both in the presence and the absence of management.

The consolidated financial statements have been audited by KPMG LLP – the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Their Report is presented as part of the consolidated financial statements.