MAGNOTTA WINERY CORPORATION

Interim Consolidated Financial Statements

Six Months Ended July 31, 2011

(Unaudited)

MAGNOTTA WINERY CORPORATION

Notice of No Auditor Review of the Consolidated Interim Financial Statements

The accompanying unaudited interim financial report of Magnotta Winery Corporation (the “Company”) has been prepared by and is the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of this interim financial report in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial report by an entity’s auditor.

MAGNOTTA WINERY CORPORATION

Consolidated Balance Sheets

As at July 31, 2011 and January 31, 2011
Unaudited

	Notes	July 31, 2011	January 31, 2011 (Note 20)
Assets			
Current assets			
Accounts receivable	3	$ 1,651,254	$ 616,797
Inventories	4	29,808,242	29,965,402
Income taxes receivable		613,970	534,686
Deferred income tax assets		73,026	58,188
Biological assets	6	254,384	865,024
Prepaid expenses and deposits		750,512	243,221
		33,151,388	32,283,318
Non-current assets			
Property, plant and equipment	5	16,453,238	16,121,850
Biological assets	6	3,963,263	3,963,263
Winery licenses	7	251,516	251,516
		20,668,017	20,336,629
		$53,819,405	$52,619,947
Liabilities and Equity			
Current liabilities			
Bank indebtedness	8	$ 4,906,853	$ 4,979,570
Accounts payable and accrued liabilities	9	1,441,570	1,167,308
Current portion of long-term debt	10	1,637,822	1,669,600
Current portion of retirement allowance		300,000	300,000
		8,286,245	8,116,478
Non-current liabilities			
Long-term debt	10	4,022,879	4,277,798
Long-term retirement allowance		140,000	440,000
Deferred income tax liabilities		970,095	703,838
		5,132,974	5,421,636
		13,419,219	13,538,114
Shareholders' Equity			
Share capital	11	6,961,617	6,961,617
Other paid-in capital		210,000	210,000
Retained earnings		33,228,569	31,910,216
		40,400,186	39,081,833
		$53,819,405	$52,619,947

See accompanying notes to unaudited interim consolidated financial statements

On behalf of the Board:

"Rossana DiZio Magnotta"
Rossana DiZio Magnotta – CEO/President and Director

"Owen McManamon"
Owen McManamon – Director

MAGNOTTA WINERY CORPORATION

Consolidated Statements of Comprehensive Income

For the Six Months Ended July 31, 2011 and July 31, 2010
Unaudited

	Notes	Three months ended July 31, 2011	Three months ended July 31, 2010 (Note 20)	Six months ended July 31, 2011	Six months ended July 31, 2010 (Note 20)
Net sales		$ 6,060,581	$ 6,126,302	$ 12,171,004	$ 12,383,021
Cost of goods sold, excluding depreciation of property, plant and equipment		3,660,551	3,537,791	7,171,601	6,955,408
Depreciation of property, plant and equipment (production)	5	114,352	133,488	241,635	266,976
Total cost of goods sold		3,774,903	3,671,279	7,413,236	7,222,384
Gross profit		2,285,678	2,455,023	4,757,768	5,160,637
Expenses:					
Selling, administration and other		1,212,435	1,164,844	2,068,887	2,030,264
Depreciation of property, plant and equipment (non-production)	5	148,421	145,212	301,153	290,424
Finance costs	14	145,051	141,772	296,506	275,239
		1,505,907	1,451,828	2,666,546	2,595,927
Earnings before income taxes		779,771	1,003,195	2,091,222	2,564,710
Income taxes:					
Current	15	179,725	314,000	521,450	727,000
Deferred	15	71,110	68,131	251,419	275,995
		250,835	382,131	772,869	1,002,995
Net earnings and comprehensive income for the period		$ 528,936	$ 621,064	$ 1,318,353	$ 1,561,715
Basic earnings per share		$ 0.04	$ 0.05	$ 0.10	$ 0.11
Diluted earnings per share		$ 0.04	$ 0.05	$ 0.10	$ 0.11

See accompanying notes to unaudited interim consolidated financial statements

MAGNOTTA WINERY CORPORATION

Consolidated Statements of Changes in Equity

Unaudited

	Notes	Share capital	Note receivable for share capital	Other paid-in capital	Retained earnings	Total
Balance at February 1, 2010	11	$6,961,617	$(116,250)	$210,000	$29,621,898	$36,677,265
Net earnings for the period		-	-	-	1,561,715	1,561,715
Balance at July 31, 2010		$6,961,617	$(116,250)	$210,000	$31,183,613	$38,238,980
Net earnings for the period		-	-	-	726,603	726,603
Note receivable received	18	-	116,250	-	-	116,250
Balance at January 31, 2011		$6,961,617	$ -	$210,000	$31,910,216	$39,081,833
Net earnings for the period		-	-	-	1,318,353	1,318,353
Balance at July 31, 2011		$6,961,617	$ -	$210,000	$33,228,569	$40,400,186

See accompanying notes to unaudited interim consolidated financial statements

MAGNOTTA WINERY CORPORATION

Consolidated Statements of Cash Flows

For the Six Months Ended July 31, 2011 and July 31, 2010
Unaudited

	Three months ended July 31, 2011	Three months ended July 31, 2010	Six month ended July 31, 2011	Six months ended July 31, 2010
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	$ 528,936	$ 621,064	$ 1,318,353	$ 1,561,715
Items not involving cash:				
Depreciation of property, plant and equipment	262,773	278,700	542,788	557,400
Deferred income taxes	71,110	68,131	251,419	275,995
Unrealized foreign exchange loss	7,632	(6,128)	14,493	(11,228)
Changes in non-cash operating working capital:				
Accounts receivable	(174,240)	(272,761)	(1,034,457)	(998,725)
Inventories	(438,258)	(818,755)	157,160	(199,706)
Prepaid expenses and deposits	(275,172)	(160,891)	(507,291)	(352,204)
Accounts payable and accrued liabilities	145,023	224,828	274,262	(66,081)
Biological assets	979,920	1,027,685	610,640	720,937
Retirement allowance	(300,000)	(300,000)	(300,000)	(300,000)
Income taxes receivable/payable	(21,009)	(87,231)	(79,284)	(34,932)
Cash provided by (used in) operating activities	786,715	574,642	1,248,083	1,153,171
Financing activities:				
Decrease in long-term debt	(119,613)	(153,523)	(301,190)	(320,588)
Decrease in bank indebtedness	(12,853)	(7,430)	(72,717)	(267,054)
Cash provided by (used in) financing activities	(132,466)	(160,953)	(373,907)	(587,642)
Investing activities:				
Purchases of property, plant and equipment	(654,249)	(413,689)	(874,176)	(565,529)
Cash provided by (used in) investing activities	(654,249)	(413,689)	(874,176)	(565,529)
Cash and cash equivalents being cash and cash equivalents, beginning and end of period	$	$ -	$ -	$ -
Supplemental cash flow information:				
Cash paid for interest	$ 115,827	$ 118,099	$ 245,370	$ 235,738
Cash paid for income taxes	$ 200,734	$ 401,231	$ 600,734	$ 761,932

See accompanying notes to unaudited interim 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. Basis Of Presentation

(a) Adoption of IFRS
The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and to require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has reported on this basis in these interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These unaudited interim consolidated financial statements have been prepared in accordance with IFRS applicable to the presentation of interim financial statements. The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of September 13, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending January 31, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These unaudited interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended January 31, 2011 and the IFRS interim consolidated financial statements for the three months ended April 30, 2011. These interim consolidated financial statements follow the same accounting policies and method of their application as presented in the Company's consolidated interim financial statements for the three months ended April 30, 2011. Note 20 discloses IFRS information that is material to an understanding of these consolidated interim financial statements.

(b) Statement of Compliance
These unaudited interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. These are the Company's second interim consolidated financial

statements in accordance with IFRS, and its interpretations adopted by the International Accounting Standards Board ("IASB"). These interim consolidated financial statements do not include all information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Company is provided in note 20.

The interim consolidated financial statements were authorized for issue by the Board of Directors on September 13, 2011.

(c) Functional and presentation currency
These interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. All values are presented in actual dollars unless otherwise stated.

(d) Use of estimates and judgments
The preparation of the interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and may result in a material adjustment to the related asset or liability.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Although each of its significant accounting policies reflects judgments, estimates or assumptions, the Company believes that the following accounting balances involve a greater degree of uncertainty and judgment: property, plant and equipment, biological assets, winery licenses, deferred income taxes, inventories and various provisions.

2. Significant Accounting Policies
The accounting policies set out in these interim consolidated financial statements have been applied consistently to all periods presented in these interim consolidated financial statements.

(a) Basis of consolidation
These consolidated financial statements include the accounts of Magnotta and all its subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

(b) Revenue
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the income can be measured reliably.

Revenue from the sales of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding recovery of the consideration due to associated costs, and there is no continuing involvement with the goods. The Company deals primarily with retail customers. Revenue through its retail locations is recorded when the product is purchased by the customer.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of product excise taxes, which are collected on behalf of the government, and are deducted from gross sales to arrive at net sales.

(c) Foreign currencies
Foreign currency transactions are accounted for at exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the period end date rate. Gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary assets and liabilities measured at historical cost and denominated in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction.

(d) Property, plant and equipment
Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Cost includes the purchase price and any costs directly attributable to bring the asset to a working condition for its intended use. Expenditures which extent the useful life or increase the service capacity of an asset are capitalized, while expenditures that relate to day-to-day servicing to repair or maintain an asset are expensed as incurred.

Depreciation is provided so to write off the cost of the asset, less its estimated residual value (if any) over its estimated useful life on the following basis:

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

Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The Company applies such changes in estimates on a prospective basis.

The net carrying amounts of property, plant and equipment assets are reviewed for impairment when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, the excess if fully provided for in the period it is determined.

When an item of property, plant and equipment is disposed of by sale, it is derecognized and the difference between its carrying value and net sales proceeds is disclosed as an expense item in the income statement.

(e) Biological assets
Vines, which are biological assets and bear grapes, are measured at fair value, with any change therein recognized in the profit or loss.

Grapes, which are agricultural produce, are measured at fair value less costs to sell, with any change therein recognized in the profit or loss. Costs to sell include all costs that would be necessary to sell the grapes at harvest.

(f) Borrowing costs
Borrowing costs of qualifying assets are capitalized for periods preceding the dates that the assets are available for use. All other borrowing costs are recognized as expense in the financial period when incurred.

(g) Intangible assets
Winery licenses, which have been assessed as having an indefinite life, are measured at acquisition cost less any impairment in value.

(g) Impairment of non-financial assets
The carrying amounts of items in property, plant and equipment, and intangible assets (i.e. winery licenses) are reviewed for impairment at the end of each reporting period. If there are indicators of impairment, an evaluation is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. As asset’s recoverable amount is determined as the higher of its fair value less costs to sell and its value-in-use. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash-generating unit level.

If the carrying amount of an individual asset or cash-generating unit exceeds it recoverable amount, an impairment loss is recorded in the income statement to reflect the asset at the lower amount. In assessing the value-in-use, the relevant future cash flows expected to arrive from the continuing use of such assets and from their disposal are discounted to their present value using a pre-tax discount rate which reflects the current market’s assessments of the time value of money and asset-specific risks for which the cash flow estimates have not been adjusted. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm’s-length transaction between knowledgeable and willing parties.

A reversal of a previously recognized impairment loss is recorded in the income statement when events or circumstances dictate that the estimates used to determine the recoverable amount have changed since the prior impairment loss was recognized. The carrying amount is increased to the recoverable amount but not beyond the carrying amount net of amortization which would have arisen if the prior impairment loss had not been recognized. After such a reversal, the amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(h) 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 depreciation of property, plant and equipment.

Inventories are written down to net realizable value if the net realizable value is less than the carrying amount of the inventory item at the reporting date. If the net realizable value subsequently increases, a reversal of the loss initially recognized is applied to cost of sales. Grapes, which are agricultural produce, are measured at fair value less costs to sell, with any change therein recognized in the profit or loss. Costs to sell include all costs that would be necessary to sell the grapes at harvest.

(i) Income taxes
Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Earnings per share
The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is determined by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net earnings attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise shares secured by notes receivable.

(k) Financial instruments
All financial instruments are recorded at fair value on initial recognition.

Financial assets
Financial assets are designated at inception into one of the following categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit and loss.

Transaction costs associated with financial assets are included in the initial carrying amount of the asset.

Subsequent to initial recognition:
- the unrealized gains or losses associated with financial assets designated as fair value through profit and loss are recognized at each period end date through earnings;
- financial assets classified as loan-and-receivables and held-to-maturity are measured at amortized cost; and
- financial assets classified as available-for-sale are measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss, except for losses in value that are considered other than temporary which are recognized in income.

Financial liability
Financial liabilities are designated at inception as other-financial-liabilities or a fair value through profit and loss.

Transaction costs that are directly attributable to financial liabilities are deducted from the fair value of the related liability.

Subsequent to initial recognition:
- other-financial-liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortization cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability; and
- fair value changes on financial liabilities classified as fair value through profit and loss are recognized through income.

Financial liabilities classified as fair value through profit and loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit and loss.

Fair values
Financial instruments recorded on the statement of financial position are categorized based on the fair value hierarchy of inputs. The levels of the fair value hierarchy are described as follows:

- Level 1 reflects valuation based on quoted prices observed in active markets for identical assets or liabilities.
- Level 2 reflects valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for the instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 reflects valuation techniques with significant unobservable market inputs. There were no financial instruments categorized in level 3.

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

The Company assesses at the end of each reporting period whether a financial asset is impaired.

(k) Related party transactions
The Company views related parties as those persons or entities that are able to directly or indirectly control or exercise significant influence over the Company in making financial and operational decision. A transaction is considered to be a related party transaction where there is transfer of resources, services or obligations between the Company and the related party.

All related party transactions entered into by the Company that are in the normal course of business and have commercial substance are measured at the exchange amount.

3. Accounts Receivable

	July 31, 2011	January 31, 2011
Trade receivable	$1,667,962	$ 633,505
Allowance	(16,708)	(16,708)
Net accounts receivable	$1,651,254	$ 616,797

There were no impairments of accounts receivable above. The solvency of the customer and the ability to repay the receivables were considered in assessing the impairment of the asset. No collateral is held in respect of impaired assets or assets that are past due but not impaired.

The aging of accounts receivable at the reporting dates is as follows:

	July 31, 2011	January 31, 2011
0 to 60 days	$1,599,557	$ 479,736
61 to 90 days	5,995	68,402
Greater than 90 days	62,410	85,367
	$1,667,962	$ 633,505
Allowance	(16,708)	(16,708)
	$1,651,254	$ 616,797

4. Inventories

	July 31, 2011	January 31, 2011
Supplies and raw materials	$ 6,722,215	$ 6,802,584
Work in process	17,476,308	16,839,847
Finished goods	5,609,719	6,322,971
	$29,808,242	$29,965,402

MAGNOTTA WINERY CORPORATION

Notes to the Interim Consolidated Financial Statements (Continued):

For the Six Months Ended July 31, 2011 and July 31, 2010

Unaudited

5. Property, plant and equipment

July 31, 2011	Cost	Accumulated amortization and impairment	Net book value
Land and agricultural land	$ 5,660,346	$ -	$ 5,660,346
Buildings	7,588,888	2,974,425	4,614,463
Equipment	18,521,700	12,758,762	5,762,938
Leasehold improvements	2,489,901	2,074,410	415,491
	$34,260,835	$17,807,597	$16,453,238

January 31, 2011	Cost	Accumulated amortization and impairment	Net book value
Land and agricultural land	$ 5,638,445	$ -	$ 5,638,445
Buildings	7,588,888	2,861,421	4,727,467
Equipment	18,014,633	12,420,336	5,594,297
Leasehold improvements	2,144,693	1,983,052	161,641
	$33,386,659	$17,264,809	$16,121,850

Movement in property, plant and equipment is summarized as follows:

	Land and agricultural land	Buildings	Equipment	Leasehold improvements	Total
Cost					
Balance at February 1, 2010	$ 5,557,929	$ 7,587,426	$17,541,503	$ 2,123,698	$32,810,556
Additions	80,516	1,462	473,130	20,995	576,103
Balance at January 31, 2011	$ 5,638,445	$ 7,588,888	$18,014,633	$2,144,693	$33,386,659
Accumulated amortization and impairment					
Balance at February 1, 2010	$ -	$ 2,627,704	$11,672,844	$ 1,924,031	$16,224,579
Depreciation	-	233,717	747,492	59,021	1,040,230
Balance at January 31, 2011	$	$ 2,861,421	$12,420,336	$1,983,052	$17,264,809
Net book value at					
February 1, 2010	$ 5,557,929	$ 4,959,722	$ 5,868,659	$ 199,667	$16,585,977
January 31, 2011	$ 5,638,445	$ 4,727,467	$ 5,594,297	$ 161,641	$16,121,850

	Land and agricultural land	Buildings	Equipment	Leasehold improvements	Total
Cost					
Balance at February 1, 2011	$ 5,638,445	$ 7,588,888	$18,014,633	$ 2,144,693	$ 33,386,659
Additions	21,901	-	507,067	345,208	874,176
Balance at July 31, 2011	$ 5,660,346	$ 7,588,888	$18,521,700	$ 2,489,901	$34,260,835
Accumulated amortization and impairment					
Balance at February 1, 2011	$ -	$ 2,861,421	$12,420,336	$1,983,052	$17,264,809
Depreciation	-	113,004	338,426	91,358	542,788
Balance at July 31, 2011	$ -	$ 2,974,425	$12,758,762	$2,074,410	$17,807,597
Net book value at July 31, 2011	$ 5,660,346	$ 4,614,463	$ 5,762,938	$ 415,491	$16,453,238

Depreciation expense is comprised of depreciation on production and non-production property, plant and equipment. Depreciation for three months ended July 31, 2011 on production property, plant and equipment was $114,352 and non-production was $148,421 to equal $262,773, while depreciation for six months ended July 31, 2011 on production property, plant and equipment was $241,635 and non-production was $301,153 to equal $542,788. Depreciation for three months ended July 31, 2010 on production property, plant and equipment was $133,488 and non-production was $145,212 to equal $278,700, while depreciation for six months ended July 31, 2010 on production property, plant and equipment was $266,976 and non-production was $290,424 to equal $557,400.

6. Biological assets

	Total	Current	Non-current
February 1, 2010	$ 4,875,378	$ 992,630	$3,882,748
Increase due to purchases	534,557		
Change in fair value less estimated costs to sell	213,734		
Harvested grapes transferred to inventories	(1,469,228)		
Balance at July 31, 2010	$ 4,154,441	$ 271,693	$3,882,748
Increase due to purchases	$1,400,896		
Change in fair value less estimated costs to sell	2,126		
Harvested grapes transferred to inventories	(729,176)		
Balance at January 31, 2011	$4,828,287	$ 865,024	$3,963,263
Increase due to purchases	500,138		
Change in fair value less estimated costs to sell	236,643		
Harvested grapes transferred to inventories	(1,347,421)		
Balance at July 31, 2011	$4,217,647	$ 254,384	$3,963,263

Biological assets comprise grape vines and grapes on the vine. At the above dates, these assets comprise approximately 531 acres of vineyards ranging from newly established producing vineyards to vineyards that are 25 years old.

The current portion of biological assets generally represents grapes on the vines prior to harvest.

7. Intangible assets

	Winery Licenses
Cost	
Balance at February 1, 2010 and January 31, 2011	$ 251,516
Accumulated amortization and impairment	
Balance at February 1, 2010 and January 31, 2011	-
Net book value at February 1, 2010 and January 31, 2011	$ 251,516
Cost	
Balance at February 1, 2011	$ 251,516
Accumulated amortization and impairment	
Balance at February 1, 2011	-
Amortization charge for the period	-
Net book value at July 31, 2011	$ 251,516

Management has determined that there is no impairment in the value of the winery licenses. Accordingly, no provision for impairment has been recognized in these financial statements.

8. Bank indebtedness

Under its credit agreement, the Company has an approved operating line of credit of $11,500,000. The operating line of credit is due on demand, bears interest at bank prime plus 0.75% 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 July 31, 2011.

9. Accounts payable and accrued liabilities

	July 31, 2011	January 31, 2011
Trade accounts payable and accrued liabilities	$1,212,757	$ 883,004
Other payables	228,813	284,304
	$1,441,570	$1,167,308

The Company's trade payables relate to amounts outstanding for trade purchases relating to the production of alcohol-based products and for general and administrative activities.

The Company's other payables category mainly include amounts relating to federal and provincial taxes associated with the manufacturing, distribution and retailing of alcohol-based products.

MAGNOTTA WINERY CORPORATION

Notes to the Interim Consolidated Financial Statements (Continued):
For the Six Months Ended July 31, 2011 and July 31, 2010
Unaudited

10. Long-term debt

	July 31, 2011	January 31, 2011
First mortgages, at a fixed blended rate of 5.70% (2011 – 5.70%), secured by certain land, buildings and vineyards, maturing August 2013 and September 2013	$ 2,576,181	$ 2,786,921
Second mortgage, at a fixed rate of 4.25% (2011 – 4.25%) secured by certain land, buildings, and vineyards, maturing February 2015	457,208	478,203
Third mortgages, at a fixed rate of 6.50% (2011 – 6.50%), secured by certain land, buildings, and vineyards, maturing October 2011	689,142	729,009
Third mortgages, bearing interest at the bank's prime rate plus a fixed margin of 1.00% (2011 – bank's prime rate plus a fixed margin of 1.00%), secured by certain land, buildings and vineyard, maturing October 2011	229,809	249,011
Third mortgage, at a fixed rate of 4.25% (2011 – 4.25%), secured by certain land, buildings and vineyards, maturing February 2015	1,400,000	1,450,000
Mortgage, bearing interest at a rate of 6.29% (2011 – 6.29%), secured by land, vineyard and buildings in Melipilla, Chile, repayable in Chilean UF 4,153 (2011 – UF 6,222), maturing December 2012	199,091	186,908
Other loans	109,270	67,346
Total long-term debt	$5,660,701	$ 5,947,398
Current long-term debt	$1,637,822	$ 1,669,600
Non-current long-term debt	$4,022,879	$ 4,277,798
	$5,660,701	$ 5,947,398

The aggregate maturities of long-term debt obligations are summarized as follows:

Due in one year	$1,637,822
Due in one to two years	722,392
Due in two to three years	1,834,738
Due in three to four years	1,451,947
Thereafter	13,802
	$5,660,701

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.

The Company is in compliance with the financial covenants required under the terms of the loans.

11. Share capital

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

	Number	Amount
Balance February 1, 2010, January 31, 2011 and July 31, 2011	13,932,005	$6,961,617

12. Earnings per share

The details of the calculations of earnings per share are set out below:

	Six months ended July 31, 2011		Six months ended July 31, 2010	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	13,932,005	$0.10	13,807,005	$0.11
Effect of dilutive securities:				
Shares secured by notes receivable	-	-	125,000	-
Diluted	13,932,005	$0.10	13,932,005	$0.11

	Three months ended July 31, 2011		Three months ended July 31, 2010	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	13,932,005	$0.04	13,807,005	$0.05
Effect of dilutive securities:				
Shares secured by notes receivable	-	-	125,000	-
Diluted	13,932,005	$0.04	13,932,005	$0.05

13. Personnel expenses

	Six months ended July 31, 2011 Salaries, benefits and other personnel-related expenses	Six months ended July 31, 2010 Salaries, benefits and other personnel-related expenses
Cost of sales	$ 1,385,317	$ 1,321,123
Selling, administration and other	$ 849,128	$ 863,719
	$ 2,234,445	$ 2,184,842

	Three months ended July 31, 2011 Salaries, benefits and other personnel-related expenses	Three months ended July 31, 2010 Salaries, benefits and other personnel-related expenses
Cost of sales	$ 711,147	$ 668,007
Selling, administration and other	$ 424,564	$ 431,859
	$ 1,135,711	$ 1,099,866

14. Finance costs

	Six months ended July 31, 2011	Six months ended July 31, 2010
Interest on long-term debt	$ 154,971	$ 164,956
Interest on bank indebtedness	141,535	110,283
	$ 296,506	$ 275,239

	Three months ended July 31, 2011	Three months ended July 31, 2010
Interest on long-term debt	$ 85,290	$ 87,950
Interest on bank indebtedness	59,761	53,822
	$ 145,051	$ 141,772

15. Income taxes

	Six months ended July 31, 2011	Six months ended July 31, 2010
Current income tax expense	$ 521,450	$ 727,000
Deferred income tax expense	251,419	275,995
	$ 772,869	$1,002,995

	Three months ended July 31, 2011	Three months ended July 31, 2010
Current income tax expense	$ 179,725	$ 314,000
Deferred income tax expense	71,110	68,131
	$ 250,835	$ 382,131

16. Financial instruments

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

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

	Loans and receivables/ other financial liabilities	Carrying Amount	Fair Value	Hierarchy
Financial assets:				
Accounts receivable	$ 1,651,254	$ 1,651,254	$ 1,651,254	Level 1
Financial liabilities:				
Accounts payable and accrued liabilities	1,441,570	1,441,570	1,441,570	Level 1
Bank indebtedness	4,906,853	4,906,853	4,906,853	Level 1
Long-term debt	5,660,701	5,660,701	5,660,701	Level 2
Retirement allowance	440,000	440,000	440,000	Level 2
Net financial liabilities	$10,797,870	$10,797,870	$10,797,870	-

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

	Loans and receivables/ other financial liabilities	Carrying Amount	Fair Value	Hierarchy
Financial assets:				
Accounts receivable	$ 616,797	$ 616,797	$ 616,797	Level 1
Financial liabilities:				
Accounts payable and accrued liabilities	1,167,308	1,167,308	1,167,308	Level 1
Bank indebtedness	4,979,570	4,979,570	4,979,570	Level 1
Long-term debt	5,947,398	5,947,398	5,947,398	Level 2
Retirement allowance	740,000	740,000	740,000	Level 2
Net financial liabilities	$12,217,479	$12,217,479	$12,217,479	-

Fair value hierarchy:

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

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

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

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

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

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

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.

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.

Interest rate risk:

Interest rate risk refers to the risk that the value of the financial instruments or cash flows associated with the instruments will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk as the Company's net bank indebtedness and approximately 4.1% of the total long-term debt bear interest at a variable rate linked to Canadian prime. All other long-term debt bears interest at fixed rates. A change of 1.0% in all variable interest rate debt, including net bank indebtedness, would have an effect of approximately $25,740 on the Company's consolidated earnings for the six months ended July 31, 2011 and $12,842 for the three months ended July 31, 2011.

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 six months ended July 31, 2011 by approximately $5,057 and $2,756 for the three months ended July 31, 2011. The Company considers this risk to be limited and does not hedge its foreign exchange exposure.

Capital risk management:

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

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

At the quarter and period ended July 31, 2011, the Company is in compliance with all of its financial debt covenants.

17. Commitments

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

	July 31, 2011	January 31, 2011
Due within one year	$ 85,254	$ 89,820
Due in one to five years	188,278	228,622
Due in over five years	-	-
	$273,532	$318,442

18. Related party transactions

Key management personnel consist of the Officers of the Company and the Company's Board of Directors. The aggregate compensation made to key management personnel is set out below:

	Six months ended July 31, 2011	Six months ended July 31, 2010
Short-term employment benefits	$309,684	$293,750
Post-employment benefits	-	-
Long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	$309,684	$293,750

	Three months ended July 31, 2011	Three months ended July 31, 2010
Short-term employment benefits	$141,098	$134,164
Post-employment benefits	-	-
Long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	$141,098	$134,164

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

19. Operating segments

The Company is structured as one operating unit which is consistent with internal reporting that is regularly reviewed by the Company's chief operating decision makers to make decision about resources to be allocated to the business and assess its performance. Magnotta's sole significant operating unit is the production and sale of wine and wine juice products. Magnotta operates primarily in Canada and has a vineyard in Chile.

Net Sales	Six months ended July 31, 2011	Six months ended July 31, 2010
Canada	$11,528,603	$11,786,969
Chile	539,684	469,461
Other	102,717	126,591
	$12,171,004	$12,383,021

Net Sales	Three months ended July 31, 2011	Three months ended July 31, 2010
Canada	$ 5,795,794	$ 5,909,369
Chile	224,284	165,658
Other	40,503	51,275
	$ 6,060,581	$ 6,126,302

Assets by geographic region are summarized as follows:

July 31, 2011	Current assets	Property, plant and equipment	Non-current biological assets	Winery licenses	Total
Canada	$31,252,257	$14,950,695	$2,515,202	$251,516	$48,969,670
Chile	1,899,131	1,502,543	1,448,061	-	$ 4,849,735
	$33,151,388	$16,453,238	$3,963,263	$251,516	$53,819,405

January 31, 2011	Current assets	Property, plant and equipment	Non-current biological assets	Winery licenses	Total
Canada	$30,804,300	$14,594,291	$2,515,202	$251,516	$48,165,309
Chile	1,479,018	1,527,559	1,448,061	-	$ 4,454,638
	$32,283,318	$16,121,850	$3,963,263	$251,516	$52,619,947

20. Transition to IFRS

The Company transitioned to IFRS on February 1, 2010 (date of transition) and prepared its opening IFRS consolidated balance sheet on that date. The reporting date for these interim financial statements is July 31, 2011, with the Company's IFRS adoption date being February 1, 2011.

The accounting policies stated in note 2 have been applied in preparing these financial statements for the quarter and six months ended July 31, 2011, the comparative information presented in these financial statements for the quarter and six months ended ended July 31, 2010, the date of transition February 1, 2010, and the year ended January 31, 2011.

In preparing these interim financial statements in accordance with IFRS 1, the Company has considered both the mandatory and optional exemptions from full retrospective application of IFRS, and where applicable, has applied them as follows:

Account estimates

The Company's estimates in accordance with IFRS at the date of transition to IFRS are consistent with estimates made for the same date in accordance with Canadian GAAP.

Derecognition of financial assets and financial liabilities

A first-time adopter is required to apply the derecognition rules in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") prospectively from January 1, 2004 unless it chooses to apply the derecognition rules of IAS 39 retrospectively from a date of its choosing.

Magnotta has applied the derecognition requirements under IAS 39 prospectively for transactions occurring on or after January 1, 2004.

Hedge accounting

A hedging relationship will only qualify for hedge accounting at the date of transition if the hedging relationship has been fully designated and documented as effective in accordance with IAS 39 on or before the date of transition and is of a type that qualifies for hedge accounting under IAS 39. With IFRS 1, hedge accounting under IAS 39 can be applied prospectively only from the date that the hedge relationship is fully designated and documented subject to all other hedge accounting requirements of IAS 39 being met.

The Company has not designated any hedging relationships and does not use hedge accounting, and accordingly, this exception is not applicable.

Non-controlling interests

IFRS 1 requires that a first-time adopter apply the following requirements of IAS 27, Consolidated and Separate Financial Statements ("IAS 27"), prospectively from the date of transition to IFRS:

- the requirement that total comprehensive income be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- the requirements regarding the accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
- the requirements regarding the accounting for a loss of control over a subsidiary, and the related requirements in paragraph 8A of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

The Company does not have any non-controlling interest and accordingly, this exception is not applicable.

Business combinations

IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the date of transition to IFRS. The retrospective basis would require restatement of all business combinations that occurred prior to February 1, 2010.

The Company will apply the IFRS 1 exemption for Business Combinations prospectively from the date of transition.

Share-based payments

For equity-settled transactions, IFRS 1 included two exemptions:
- first-time adopters are not required to apply IFRS 2, Share-based Payment ("IFRS 2") for equity-settled shared-based payments granted on or before November 7, 2002; and
- first-time adopters are not required to apply IFRS 2 to share-based payments granted after November 7, 2002 that vested before the date of transition to IFRS.

The Company does not have any Share-based payments and accordingly, this exemption is not applicable.

Insurance contracts

IFRS 4, Insurance Contracts ("IFRS 4") allows entities to continue to use their existing accounting policies for liabilities arising from insurance contracts as long as the existing policies meet certain minimum requirements as set out in IFRS 4. IFRS 1 provides an optional exemption whereby an entity issuing insurance contracts (an insurer) may elect upon first-time adoption to apply the transitional provisions of IFRS 4.

The Company does not hold any contracts that fall within the scope of IFRS 4, and accordingly, this exemption is not applicable.

Deemed costs

IFRS 1 includes an election that an entity may elect to measure an item of property, plant and equipment, investment property and intangible assets at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date.

The Company has decided to not make this election.

However, biological assets (vines) and agricultural produce (grapes) are measured at fair value at the date of transition as per IAS 41 (Agriculture).

Leases

IFRIC 4, Determining Whether an Arrangement Contains a Lease, specifies criteria for determining, at the inception of an arrangement, whether the arrangement contains a lease. It also specifies when an arrangement should be reassessed subsequently. IFRS 1 provides an exemption from these requirements. Instead of determining retrospectively whether an arrangement contains a lease at the inception of the arrangement and subsequently reassessing that arrangement as required in the periods prior to transition to IFRSs, entities may determine whether arrangements in existence on the date of transition to IFRSs contain leases on the basis of the facts and circumstances existing at the date of transition.

The Company has elected to apply the exemption provided in IFRS 1. As such, the Company will determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date. There has been no impact to the Company regarding the application of this exemption.

Employee benefits

IFRS 1 provides the option to retrospectively apply the "corridor" approach under IAS 19, Employee Benefits ("IAS 19"), for the recognition of actuarial gains and losses, or recognize all cumulative gains and losses deferred under Canadian GAAP in opening retained earnings at the date of transition.

The Company does not have any employee benefit plans that fall within the scope of IAS 19, and accordingly, this exemption is not applicable.

Cumulative translation differences

A first-time adopter may elect not to calculate the translation difference related to foreign operations retrospectively. Instead, an entity may reset translation differences at the date of transition, determined in accordance with previous GAAP, to zero. The requirements of IAS 21, The Effects of Changes in Foreign Exchange Rates, are then applied prospectively from the date of transition. The gain or loss on subsequent disposal of a foreign operation will only include foreign exchange differences that arose after the date of transition.

The Company does not have any cumulative translation differences, and accordingly, this exemption is not applicable.

Investments in subsidiaries, jointly controlled entities and associates

IFRSs do not require entities to prepare separate financial statements. The requirement for entities to produce separate financial statements and the basis on which they should be prepared is generally a matter of legislation in the jurisdiction in which the entity is established. If an entity prepared separate financial statements under IFRS, IAS 27 required it to account for its investments in subsidiaries, jointly controlled entities and associates at either cost or in accordance with IAS 39.

The Company does not have any investments in subsidiaries, jointly controlled entities or associates, and accordingly, this exemption is not applicable.

Assets and liabilities of subsidiaries, associates and joint ventures

This exemption deals with the requirements of IFRS 1 where a parent and a subsidiary become first-time adopters at different dates. These requirements do not apply when the dates of adoption are the same. When the dates of adoption are the same, the parent and the subsidiary may apply the exemptions in IFRS 1 independently of each other; they are not required to take the same exemptions.

The Company does not have any investments in subsidiaries, jointly controlled entities or associates, and accordingly, this exemption is no applicable.

Compound financial instruments

IFRS 1 requires a first-time adopter to apply IAS 32, Financial Instruments: Presentation (“IAS 32”), retrospectively and separate all compound financial instruments into a debt and equity portion. The classification of the components is based on the substance of the contractual arrangement at the date when the instrument first satisfied the criteria for recognition in IAS 32 without considering events subsequent to that date (other than changes to the terms of the instrument). The carrying amounts of the components are determined on the basis of circumstances existing when the instrument was issued and in accordance with IAS 32.

The Company does not hold any compound financial instruments, and accordingly, this exemption is not applicable.

Designation of previously recognized financial instruments

An entity is permitted to designate any financial asset, other than an asset that meets the definition of “held for trading’, as an “available-for-sale” financial asset at the date of transition to IFRSs. A first-time adopter of IFRSs must de-designate financial assets and financial liabilities that under previous Canadian GAAP were designated as “at fair value through profit or loss” if they do not qualify for such designation under IAS 39.

The Company has elected to not apply the designation exemption provided by IFRS 1 for previous recognized financial instruments, and accordingly, the designations made under Canadian GAAP have remained in place upon transition to IFRS.

Fair value measurement of financial assets or financial liabilities at initial recognition

All financial assets and financial liabilities must be initially recognized at fair value, as a result, an entity must consider the specific guidance in IAS 39 on fair value when determining the carrying amount of financial assets and financial liabilities at the date of transition to IFRSs.

The Company has elected to not apply the exemption provided by IFRS 1 for fair value measurement of financial assets and liabilities at initial recognition.

Decommissioning liabilities included in the cost of property, plant and equipment

Under IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities (“IFRIC 1”), specified changes in a decommissioning, restoration or similar liability are added to or deducted from the cost of the asset to which it relates, and the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.

The Company does not have any decommissioning liabilities, and accordingly, this exemption is not applicable.

Financial assets or intangible assets accounted for in accordance with IFRIC 12, Service Concession Arrangements (“IFRIC 12”)

An optional exemption relating to IFRIC 22 is available under IFRS 1. The exemption makes the transitional provision included in the interpretation available to first-time adopters of IFRSs.

The Company does not have any arrangements in the “service concession” category, and accordingly, this exemption is not applicable.

Borrowing costs

IAS 23, Borrowing Costs ("IAS 23") prescribes the accounting treatment for borrowing costs and required that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. All other borrowing costs are expenses as incurred. IFRS 1 proves an exemption from full retrospective application of IAS 23.

The Company has elected to apply the transitional provision of IAS 23 from the date of transition to IFRS. There was no impact to the Company as a result of the application of this exemption.

Impact of the transition to IFRS on the consolidated financial statements

In preparing the Company's opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables. The Company's cash flows have not been materially affected.

Reconciliation of equity as at July 31, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Accounts receivable		$ 1,589,047	$	$ 1,589,047
Inventories	(b),(d),(e)	29,339,360	(184,896)	29,154,464
Income taxes receivable		172,443		172,443
Deferred income tax assets		98,865		98,865
Biological assets	(b),(d),(e)	-	271,693	271,693
Prepaid expenses and deposits		620,510		620,510
		$31,820,225	$ 86,797	$31,907,022
Non-current assets				
Property, plant and equipment	(b),(d),(e)	20,476,854	(3,882,748)	16,594,106
Biological assets	(b),(d),(e)	-	3,882,748	3,882,748
Winery licenses		251,516		251,516
		$52,548,595	$ 86,797	$52,635,392
Liabilities and Equity				
Current liabilities				
Bank indebtedness		$ 4,982,344	$	$ 4,982,344
Accounts payable and accrued liabilities		1,502,414		1,502,414
Current portion of long-term debt		1,047,720		1,047,720
Current portion of retirement allowance		300,000		300,000
		7,832,478		7,832,478
Non-current liabilities				
Long-term debt		5,328,189		5,328,189
Long-term retirement allowance		440,000		440,000
Deferred income tax liabilities	(b),(d),(e)	766,591	29,154	795,745
		6,534,780	29,154	6,563,934
Equity				
Share capital		6,961,617		6,961,617
Notes receivable for share capital		(116,250)		(116,250)
Other paid-in capital		210,000		210,000
Retained earnings	(b),(d),(e)	31,125,970	57,643	31,183,613
		38,181,337	57,643	38,238,980
		$52,548,595	$ 86,797	$52,635,392

	Share capital	Notes receivable for share capital	Other paid-in capital	Retained earnings	Total
Canadian GAAP	$ 6,961,617	$ (116,250)	$ 210,000	$31,125,970	$38,181,337
Effect of transition to IFRS Note (a)	-	-	-	47,471	47,471
Effect of transition to IFRS for the period:					
Note (b)				71,073	71,073
Note (d)	-	-	-	(71,073)	(71,073)
Note (e)	-	-	-	10,172	10,172
IFRS	$ 6,961,617	$ (116,250)	$ 210,000	$31,183,613	$38,238,980

Reconciliation of profit for the six months ended July 31, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Net sales		$ 12,383,021	$	$ 12,383,021
Cost of goods sold, excluding depreciation of property, plant and equipment	(b),(d),(e)	6,973,575	(18,167)	6,955,408
Depreciation of property, plant and equipment (production)		266,976		266,976
Total cost of goods sold		7,240,551	(18,167)	7,222,384
Gross profit		5,142,470	18,167	5,160,637
Expenses:				
Selling, administration and other		2,030,264		2,030,264
Depreciation of property, plant and equipment (non-production)		290,424		290,424
Interest – bank indebtedness	(c)	110,283	(110,283)	-
Interest – long-term debt	(c)	164,956	(164,956)	-
Finance costs	(c)	-	275,239	275,239
		2,595,927	-	2,595,927
Earnings before income taxes		2,546,543	18,167	2,564,710
Income taxes:				
Current		727,000		727,000
Deferred	(b),(d),(e)	268,000	7,995	275,995
		995,000	7,995	1, 002,995
Net earnings and comprehensive income for the period		$1,551,543	10,172	$ 1,561,715
Basic earnings per share		$ 0.11		$ 0.11
Diluted earnings per share		$ 0.11		$ 0.11

Reconciliation of profit for the three months ended July 31, 2010:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Net sales		$ 6,126,302	$	$ 6,126,302
Cost of goods sold, excluding depreciation of property, plant and equipment	(b),(d),(e)	3,429,021	(18,167) 126,937	3,537,791
Depreciation of property, plant and equipment (production)		133,488		133,488
Total cost of goods sold		3,562,509	108,770	3,671,279
Gross profit		2,563,793	(108,770)	2,455,023
Expenses:				
Selling, administration and other		1,164,844		1,164,844
Depreciation of property, plant and equipment (non-production)		145,212		145,212
Interest – bank indebtedness	(c)	53,822	(53,822)	-
Interest – long-term debt	(c)	87,950	(87,950)	-
Finance costs	(c)	-	141,772	141,772
		1,451,828	-	1,451,828
Earnings before income taxes		1,111,965	(108,770)	1,003,195
Income taxes:				
Current		314,000		314,000
Deferred	(b),(d),(e)	116,000	(55,864) 7,995	68,131
		430,000	(47,869)	382,131
Net earnings and comprehensive income for the period		$ 681,965	(60,901)	$ 621,064
Basic earnings per share		$ 0.05		$ 0.05
Diluted earnings per share		$ 0.05		$ 0.05

Explanatory notes to the reconciliations:

Note (a):

Under Canadian GAAP, vines were categorized and recorded under property, plant and equipment at cost less accumulated amortization. Costs of growing produce from the vines (grapes) were categorized and recorded under inventories at the lower of cost and net realizable value.

Under IFRS, biological assets (grape vines and grapes on the vine up to harvest) are carried at fair value less costs to sell. Harvested grapes are valued at fair value upon transfer to inventory.

As a result, at February 1, 2010 (date of transition), the Company set-up current biological assets at $992,630, non-current biological assets at $3,882,748, and decreased property, plant and equipment by $3,882,748 and inventory by $924,000. This resulted in a decrease in cost of goods sold of $68,630 due to the fair market value of the biological assets. The tax effect of the $68,630 gain on fair market value of the biological asset was a deferred tax change of $21,159.

Note (b):

The Company must record biological assets under IFRS, as a consequence of this, at April 30, 2010, the Company set-up current biological assets at $1,299,378, non-current biological assets at $3,882,748, and decreased property, plant and equipment by $3,882,748 and inventory by $1,103,811. This resulted in a decrease in cost of goods sold of $126,937 for the quarter ended April 30, 2010 due to the fair market value of the biological assets. The tax effect of the $126,937 gain on fair market value of the biological asset was a deferred tax charge of $55,864 for the quarter.

Note (c):

In accordance with IFRS presentation requirements, certain statement of operations reclassifications were made, including the reclassification of interest on long-term debt and bank indebtedness to finance costs.

Note (d):

Under IFRS, biological assets (grape vines and grapes on the vine up to harvest) are carried at fair value less costs to sell, and afterwards, harvested grapes are valued at fair value upon transfer to inventory. However, under Canadian GAAP, the Company recognized the gain in the biological assets (grapes) at point of sale of the grapes to third parties subsequent to April 30, 2010 and prior to July 31, 2010. As a result, the gain recognized at April 30, 2010 of $126,937 on the fair market value of the biological assets as well as a deferred tax charge of $55,864 for the quarter ended April 30, 2010, was reversed in the quarter ended July 31, 2010.

Note (e):

The Company records biological assets under IFRS, as a consequent of this, at July 31, 2010, the Company recorded current biological assets at $271,693, non-current biological assets at $3,882,748, and decreased property, plant and equipment by $3,882,748. This resulted in a decrease in cost of goods sold of $18,167 due to the fair market value of the biological assets. The tax effect of the $18,167 gain on fair market value of the biological assets was a deferred tax charge of $7,995.