MAGNOTTA WINERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
SIX MONTHS ENDED JULY 31, 2011

The following management discussion and analysis dated September 14, 2011 reviews the activities, financial condition, results of operations and cash flows of Magnotta Winery Corporation ("Magnotta" or the "Company") for the six months ended July 31, 2011 in comparison to the six months ended July 31, 2010. This discussion should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the six months ended July 31, 2011 which can be found on SEDAR at www.sedar.com.

The Company reports its financial results in accordance with International Financial Reporting Standards ("IFRS"). However, the Company has included certain non-IFRS financial measures in this analysis that the Company believes will provide useful information in measuring the financial performance of the Company. These measures do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to the other financial measures determined in accordance with IFRS. Non-IFRS numbers referred to in the analysis include "EBITDA".

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.

BASIS OF PRESENTATION AND TRANSITION TO IFRS

On February 1, 2011 the Company adopted IFRS for Canadian publicly accountable enterprises. Prior to the adoption of IFRS, the Company followed Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). While IFRS has many similarities to Canadian GAAP, some of the Company's accounting polities have changed as a result of the transition to IFRS. The most significant changes that have had an impact on the results of operations are discussed within the applicable sections of this Management Discussion and Analysis, and in more detail in the Accounting Changes section of this report.

CORPORATE PROFILE:

Magnotta Winery Corporation is Ontario's third largest winery by 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 any 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).

GROSS SALES

The following is reconciliation from gross sales to net sales for the stated periods.

Fiscal 2012 *(Quarterly results)*	**First Quarter**	**Second Quarter**
Net sales	$ 6,110,423	$6,060,581
Add back excise taxes collected	$ 2,349,786	$2,613,536
Total gross sales	$ 8,460,209	$8,674,117

Fiscal 2011 *(Quarterly results)*	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Net sales	$6,256,719	$6,126,302	$ 7,466,633	$3,374,150
Add back excise taxes collected	$1,986,332	$2,521,670	$ 2,591,497	$2,965,109
Total gross sales	$8,243,051	$8,647,972	$10,058,130	$6,339,259

Fiscal 2010 *(Quarterly results)*	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Net sales	$6,222,004	$5,986,385	$7,425,729	$4,538,691
Add back excise taxes collected	$1,975,527	$2,408,554	$2,227,152	$2,437,634
Total gross sales	$8,197,531	$8,394,939	$9,652,881	$6,976,325

Gross sales for the six months ended July 31, 2011 improved by 1.4% and for the three months ended July 31, 2011 remained relatively constant at $8,674,117 compared to $8,647,972 for the three months ended July 31, 2010 due to increased prices. Notwithstanding the increase in gross sales, net sales for the six months ended July 31, 2011 decreased by 1.7% compared to the corresponding period of the prior year and for the three months ended July 31, 2011 decreased by 1.1% due to an increase in taxes collected.

QUARTERLY RESULTS:

Summary information by quarter is as follows:

Fiscal 2012 (1)	**Net Sales**	**Gross Profit Margin**	**Net Earnings**	**Earnings Per Share Basic**	**Diluted**
First quarter	$ 6,110,423	$ 2,472,090	$ 789,417	$0.06	$0.06
Second quarter	$ 6,060,581	$ 2,285,678	$ 528,936	$0.04	$0.04

Fiscal 2011 (1)	**Net Sales**	**Gross Profit Margin**	**Net Earnings**	**Earnings Per Share Basic**	**Diluted**
First quarter	$ 6,256,719	$ 2,705,614	$ 940,651	$0.07	$0.07
Second quarter	$ 6,126,302	$ 2,455,023	$ 621,064	$0.05	$0.05
Third quarter	$ 7,466,633	$ 3,105,031	$ 715,072	$0.05	$0.05
Fourth quarter	$ 3,374,150	$ 822,662	$ 59,002	$0.00	$0.00
	$23,223,804	$ 9,088,330	$2,335,789	$0.17	$0.17

Fiscal 2010 (2)	**Net Sales**	**Gross Profit Margin**	**Net Earnings (Loss)**	**Earnings (Loss) Per Share Basic**	**Diluted**
First quarter	$ 6,222,004	$ 2,526,459	$ 845,804	$0.06	$0.06
Second quarter	$ 5,986,385	$ 2,498,037	$ (185,774)	$(0.01)	$(0.01)
Third quarter	$ 7,425,729	$ 3,143,285	$ 812,205	$0.06	$0.06
Fourth quarter	$ 4,538,691	$ 1,544,706	$ 117,879	$0.01	$0.00
	$24,172,809	$ 9,712,487	$1,590,114	$0.12	$0.11

(1) Amounts are presented in accordance with IFRS
(2) Amounts are presented in accordance with Canadian GAAP.

For the Company's most recent quarter ended July 31, 2011, net sales decreased slightly to $6,060,581 compared to $6,126,302 for the corresponding period of the prior year. Furthermore, for the second quarter of fiscal 2012, the gross margin decreased to 37.7% from 40.1% for the corresponding period of the prior year. The Company experienced cost pressures for raw inputs, and more significantly, a new 10% Cellared in Canada (CIC) wine tax, which collectively decreased the gross margin. As a result, net earnings decreased to $528,936 from $621,064 for the corresponding period of the prior year and basic and diluted earnings per share decreased $0.01 respectively to $0.04 from $0.05 the prior year.

RESULTS OF OPERATIONS:

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2011	**2010**	**2011**	**2010**
Net sales	$6,060,581	$6,126,302	$12,171,004	$12,383,021
Gross profit margin	$2,285,678	$2,455,023	$ 4,757,768	$ 5,160,637
Net earnings	$ 528,936	$ 621,064	$ 1,318,353	$ 1,561,715
Earnings per common share:				
Basic	$0.04	$0.05	$0.10	$0.11
Diluted	$0.04	$0.05	$0.10	$0.11
Number of common shares	13,932,005	13,932,005	13,932,005	13,932,005

Net sales for the quarter ended July 31, 2011 decreased by 1.1% to $6,060,581 from $6,126,302 for the corresponding period of the prior year. Net earnings decreased to $528,936 compared to $621,064 for the corresponding period of the prior year. For the six months ended July 31, 2011, net sales decreased 1.7% to $12,171,004 from $12,383,021 for the corresponding period of the prior year and net earnings decreased to $1,318,353 from $1,561,715. The new 10% Cellared in Canada (CIC) wine tax was the primary factor in decreasing the overall net sales, gross margin and net earnings.

Overall gross profit margin for the quarter ended July 31, 2011 decreased to 37.7% from 40.1% for the corresponding period of the prior year and for the six month period ended July 31, 2011 decreased to 39.1% from 41.7% for the corresponding period of the prior year. The change in the gross profit margin is due to the Company experiencing increased cost pressures for raw inputs, as well as the impact of the new 10% Cellared in Canada (CIC) wine tax even though it is developing new products and ways to mitigate the impact of the tax.

Selling, administration and other expenses were $1,212,435 for the three months ended July 31, 2011 compared to $1,164,844 for the corresponding period of the prior year. For the six month period ended July 31, 2011, selling, administration and other expenses were $2,068,887 compared to $2,030,264 for the corresponding period of the prior year. The increase is due to increased marketing and advertising costs, energy as well as compensation costs. As a percentage of net sales, selling, administration and other expenses increased slightly to 20.0% from 19.0% for the quarter of the previous year and increased for the six month period to 17.0% from 16.4% for the corresponding period of the prior year.

Total overall amortization of property, plant and equipment for the three months ended July 31, 2011 was $262,773 compared to $278,700 for the corresponding period of the prior year and for the six month period ended July 31, 2011 was $542,788 compared to $557,400 for the corresponding period of the prior year.

Finance costs for the three months ended July 31, 2011 increased slightly to $145,051 from $141,772 for the three month period ended July 31, 2010 and for the six months ended July 31, 2011 increased to $296,506 from $275,239 for the corresponding period of the prior year. The change is primarily due to a higher average Canadian prime rate during the period compared to the corresponding period of the previous year. Total debt including both long-term debt and bank indebtedness decreased by $124,834 from April 30, 2011, and decreased by $359,414 from January 31, 2011.

Earnings before interest, income taxes, and amortization decreased to $1,187,595 from $1,423,667 for the three months ended July 31, 2011 and for the six month period ended July 31, 2011 decreased to $2,930,516 compared to $3,397,349. 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.

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.

LIQUIDITY AND CAPITAL RESOURCES:

	July 31, 2011	April 30, 2011	January 31, 2011	July 31, 2010	April 30, 2010
Current assets	$33,151,388	$33,223,447	$32,283,318	$31,907,022	$31,591,153
Current liabilities	$ 8,286,245	$ 8,161,245	$ 8,116,478	$ 7,832,478	$ 7,609,619
Shareholders' equity	$40,400,186	$39,871,250	$39,081,833	$38,238,980	$37,617,916
Total assets	$53,819,405	$53,499,988	$52,619,947	$52,635,392	$52,184,534

The Company's contractual obligations and commitments have not significantly changed from those at January 31, 2011.

During the quarter ended July 31, 2011, the Company generated $786,715 from operating activities after changes in non-cash operating working capital, compared to $574,642 generated in the corresponding period of the prior year. For the six month period ended July 31, 2011, the Company generated $1,248,083 in cash from operations after changes in non-cash operating working capital compared to the $1,153,171 generated in the corresponding six month period of the prior year. At the quarter ended July 31, 2011, net working capital was $24,865,143 compared to $25,062,202 at April 30, 2011. At the six month period ended July

31, 2011, net working capital was $24,865,143 compared to $24,166,840 at January 31, 2011. This change was generated by cash flow from operations net of debt repayments.

Purchases of property, plant and equipment were $654,249 for the three month period ended July 31, 2011 compared to $413,689 for the three month period ended July 31, 2010. For the six month period ended July 31, 2011, purchases of property, plant and equipment were $874,176 compared to $565,529. Purchases of property, plant and equipment were attributable to normal requirements for the Company's production equipment, and retail locations. The Company is contemplating to relocate one of its retail store locations. If a suitable location is identified and moved into during fiscal 2012, capital expenditures will materially increase from those incurred in fiscal 2011.

During the three month period ended July 31, 2011, inventory and current portion of biological assets decreased by $541,662 to $30,062,626 from $30,604,288 at April 30, 2011 and decreased by $767,800 from $30,830,426 at January 31, 2011. The Company is conducting an on-going review of its operating and management systems in an effort to improve its inventory effectiveness.

During the three month period ended July 31, 2011, the Company decreased its long-term debt to $5,660,701 from $5,772,682 at April 30, 2011. For the six month period ended July 31, 2011, long-term debt also decreased to $5,660,701 from $5,947,398 at January 31, 2011. The Company also slightly decreased its net bank indebtedness to $4,906,853 from $4,919,706 at April 30, 2011 and for the six months ended July 31, 2011, net bank indebtedness decreased to $4,906,853 from $4,979,570 at January 31, 2011 These debt reductions were funded from cash flows from operations. Net bank indebtedness and approximately 4.1% of the total long-term debt bear interest at floating interest rates. The balance, or 95.9% of the long-term debt, bears interest at fixed interest rates. The Company has available approximately $6,600,000 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. 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 current and future customers.

The Company's current portion of long-term debt of $1,637,822 includes $918,951 of debt maturing in fiscal 2012 which it anticipates will be renewed with its current lenders. However, the interest rate upon renewal of this long-term debt facility is not determinable at this time.

The Company's operating line facility, which is from a major Canadian Chartered bank, is reviewed annually. The current interest rate on this facility is Canadian prime plus 0.75%. The Company has various ratios and covenants that it must abide by with its operating line and long-term facilities. As at July 31, 2011, it is in compliance with its covenants under these facilities.

RISKS AND UNCERTAINTIES:

The following 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.

The following risks and uncertainties have not significantly changed from those outlined in the January 31, 2011 year-end Management Discussion and Analysis.

Economic Climate and Competitive Conditions

The Company's sales of wine are affected by general economic conditions such as changes in discretionary consumer spending and consumer confidence in future economic conditions, tax laws and the prices of its products. A steep and sustained decline in economic growth may cause a lower demand for the Company's products. Such economic conditions could impact the Company's sales.

The Canadian wine market continues to be the target of low-priced imported wines from regions and countries that subsidize wine production and grape growing as well as providing sizeable export subsidies. In addition, many of these countries and regions prohibit or restrict the sale of imported wine in their own domestic markets. The Company, along with other members of the Canadian wine industry, is working with the Canadian government to rectify these unfair trade practices.

The Company operates in a highly competitive industry. The dollar amount and unit volume of sales could be negatively impacted by its inability to maintain or increase prices, changes in geographic or product mix, a general decline in beverage alcohol consumption or the decision of retailers or consumers to purchase competitive products instead of the Company's products. Retailer and consumer purchasing decisions are influenced by, among other things, the perceived absolute or relative overall value of the Company's products, including their quality or pricing, compared to competitive products. Unit volume and dollar sales could also be affected by purchasing, financing, operational, advertising or promotional decisions made by provincial agencies and retailers which could affect supply of or consumer demand for, the Company's products. The Company could also experience higher than expected selling and administrative expenses if it finds it necessary to increase the number of its personnel, advertising or promotional expenditures to maintain its competitive position.

The wine industry and the domestic and international market, in which the Company operates, are consolidating. This has resulted in fewer, but larger, competitors with increased resources and scale. The increased competition from these larger market participants will affect the Company's pricing strategies and create margin pressures, resulting in potentially lower revenues. Competition also exerts pressure on existing customer relationships, which may affect the Company's ability to retain existing customers and increase the number of new customers. The Company has worked hard to improve production efficiencies, selectively increased pricing to increase gross profit and implemented a higher level of promotion and advertising activity to combat these initiatives.

Government Regulation

The Company operates in a highly regulated industry, with requirements regarding the production, distribution, marketing, advertising and labeling of wine. These regulatory requirements may inhibit or restrict the Company's ability to maintain or increase strong consumer support for and recognition of its brands and may adversely affect the Company's business strategies and results of operations. The Company is currently reviewing its labeling on Cellared in Canada wines to reflect these guidelines.

Federal and provincial governments impose excise and other taxes on beverage alcohol products in varying amounts, which have been subject to change. Significant increases in excise and other taxes on beverage alcohol products could materially and adversely affect the Company's financial condition or results of operations. In addition, federal and provincial governmental agencies extensively regulate the beverage alcohol products industry concerning such matters as licensing, trade practices, permitted and required labelling, advertising and relations with consumers and retailers. Certain federal and provincial regulations also require warning labels and signage. New or revised regulations or increased licensing fees, requirements or taxes could also have a material adverse effect on the Company's financial condition or results of operations.

The Ontario government introduced effective July 1, 2010 an additional 10% levy on Cellared in Canada ("CIC") wine products. CIC wine products are blended wines that have a current minimum of 40% Ontario wine content, with the balance being imported wine. This levy has been imposed on only CIC products sold in winery retail stores in Ontario, excluding any other distribution channels in Ontario (i.e. the Liquor Control Board of Ontario – LCBO). Magnotta will have to either increase the selling price of these products, absorb this levy in its gross margin, or implement a combination of both of these scenarios depending on the product as applicable.

Over the past several years, various provincial governments in Canada have privatized or attempted to privatize liquor sales in their respective province. The Ontario government has at various times also explored this. 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.

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 suspended until such policies are complied with. The Company will contest these notices when appropriate and is of the view that the allegations are without merit.

Some existing Ontario wineries, including Magnotta, have grandfathered licenses that were issued prior to the North American Free Trade Agreement ("NAFTA") 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.

As an owner and lessor of property, the Company is subject to various federal and provincial laws relating to environmental matters. Such laws provide that the Company could be held liable for the cost of removal and remediation of hazardous substances on its properties. The failure to remedy any situation that might arise could lead to claims against the Company. These risks are believed to be limited.

Key Personnel

The Company's future operating results also depend on the ability of its officers and other key employees to continue to implement and improve its operating and financial systems as well as manage the Company's significant relationships with its suppliers and customers. The Company is also dependent upon the performance of its key senior management personnel. The Company's success is linked to its ability to identify, hire, train, motivate, promote and retain highly qualified management. Competition for such employees is intense and there can be no assurances that the Company will be able to retain current key employees or attract new key employees.

Trademarks and Branding

The Company considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design and artwork to be of significant importance to its business. The Company relies on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by the Company to protect its intellectual property rights will preclude competitors from developing confusingly similar brand names or promotional materials. The Company believes that its proprietary rights do not infringe upon the proprietary rights of third parties, but there can be no assurance in this regard.

The success of the Company's brands depends upon the positive image that consumers have of those brands. Contamination of the Company's products, whether arising accidentally or through deliberate third-party action, or other events that harm the integrity or consumer support for those brands, could adversely affect their sales. Contaminants in raw materials purchased from third parties and used in the production of the Company's products or defects in the fermentation process could lead to low product quality as well as illness among, or injury to, consumers of the products and may result in reduced sales of the affected brand or all of the Company's brands.

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.

If any of the Company's vineyards or the vineyards of our grape suppliers experience certain weather variations, natural disasters, pestilence, other severe environmental problems or other occurrences, the Company may not be able to secure a sufficient supply of grapes and there could be a decrease in our production of certain products from those regions and/or an increase in costs. In the past, where there has been a significant reduction in domestically sourced grapes, the Government of Ontario, in conjunction with the Ontario Grape Growers Marketing Board, has agreed to temporarily increase the blending of imported wines, which would enable the Company to continue to supply products to the market. The inability to secure premium quality grapes could impair the ability of the Company to supply certain wines to our customers. The Company has developed programs to ensure it has access to a consistent supply to premium quality grapes and wine. The price of Ontario grapes is determined through negotiations with the Ontario Grape Growers Marketing Board and the Ontario wine industry.

The Company purchases glass, bag-in-box, and other components used in the bottling and packaging of wine. The largest component in the packaging of wine is glass, of which there are few domestic or international suppliers. There is currently only one commercial supplier of glass in Canada and any interruption in supply could have an adverse impact on the Company's ability to supply its markets. The Company has taken steps to reduce its dependence on domestic suppliers through the development of relationships with several international producers of glass and through carrying increased inventories of selected bottles.

The Company has experienced increases in energy and other costs. Additional increases in the cost of energy would result in higher transportation, freight and other operating costs. The Company's future operating expenses and margins are dependent on its ability to manage the impact of cost increases. The Company cannot guarantee that it will be able to pass along increased energy and other costs to its customers through increased prices.

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 payments are 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 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 $12,842 on the Company's consolidated earnings for the quarter ended July 31, 2011, and approximately $25,740 for the six months ended July 31, 2011.

Foreign Exchange Rate

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

Reliance on its 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.

STRATEGIC OUTLOOK AND DIRECTION:

The Company is a producer and marketer of quality wines, and its strategy of growth is expected to be achieved primarily through the continued development of its brands and primarily through sales in its existing seven retail locations in Ontario. Expansion by opening additional retail stores will be considered, but success in this area will be predicated on the purchase/acquisition of additional retail licenses, which are not being issued by Ontario provincial regulators. Efforts are being made to obtain additional product listings at Ontario government controlled and regulated retailers but such listings are not easy to obtain and maintain in a competitive marketplace, and profitability of such listings will occur only with substantial sales volume.

The overall market for wine in Canada is growing due to a movement toward the consumption of wine made by an aging population who favour the more sophisticated experience that wine offers, and younger consumers who have more recently adopted wine as their beverage of choice, as well as the widely reported health benefits of moderate wine consumption. The Company’s product development and sales and marketing initiatives are aimed at capitalizing on the trend to increased wine consumption and expect to benefit over the long term from this trend. In the short term, potential growth will be impacted by the aforementioned lack of available retail licenses. In addition, potential growth and profitability will be offset in whole or in part by the Province of Ontario’s introduction of what the Company believes is a discriminatory tax that was effective July 1, 2010, as part of the Harmonized Sales Tax (“HST”). This tax came in the form of a special wine levy on CIC wines sold through the Company’s retail store network. CIC is wine that is made through the blending of wine made from domestic and foreign content. Imported and domestic wine sold through the provincially owned LCBO will not incur any additional taxation, regardless of the blend, creating an uneven pricing market. This special CIC wine levy has put pressure on the Company’s gross profit, as well as on domestic grape prices and purchases. The Company and its industry peers are working diligently in exploring all mitigating options available.

To date the Company has absorbed the majority of the CIC tax and has not fully passed on the tax to the consumer due to concern over creating non-competitive pricing. Historically, the Company has developed and retained a loyal customer base by not increasing prices unreasonably. It is uncertain what the impact will be on customer buying patterns if the Company increased prices to levels above its competitors. The Company is continuing to diligently develop new products and ways to mitigate the impact of the tax.

RELATED PARTY TRANSACTIONS:

Notes receivable were received from two senior officers of the Company who were provided with the financing at that time to exercise their options to purchase 500,000 common shares of the Company. These notes were secured by the acquired common shares, bore monthly interest at the rate charged to the Company on its operating line of credit, and provided for annual principal repayments of $116,250. The notes were fully paid during the fiscal year ended January 31, 2011, and hence are not outstanding as at July 31, 2011.

ACCOUNTING POLICIES:

The Company's accounting policies are discussed in detail within Note 2 of the Company's July 31, 2011 unaudited interim consolidated financial statements.

Conversion to IFRS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the use of IFRS as issued by the International Accounting Standards Board will be required effective for fiscal years beginning after January 1, 2011 (or February 1, 2011 for the Company) for publicly accountable profit oriented enterprises. The transition date requires the Company to restate, for comparative purposes, amounts reported for the year ending January 31, 2011 as if the Company had always reported under IFRS. The Company has prepared its interim financial statements for the quarter ended July 31, 2011, including the restatement of fiscal 2011 comparative information in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). The Company will issue its first annual IFRS financial statements for the year ending January 31, 2012 with January 31, 2011 comparatives.

The Company's interim financial statements for the period ended July 31, 2011 have not been audited or reviewed by the Company's external auditor. Note 20 of the July 31, 2011 and April 30, 2011 interim financial statements provides a complete list of the Company's IFRS 1 mandatory and optional exemptions from full retrospective application of IFRS. Note 20 also provides detailed reconciliations between the Company's IFRS and Canadian GAAP equity as at February 1, 2010, April 30, 2010, July 31, 2010 and January 31, 2011, as well as comprehensive income for the quarters ended April 30, 2010, July 31, 2010 and the year ended January 31, 2011.

The Company's IFRS transition team has completed the conversion implementation. Post implementation will continue in future periods.

IFRS Accounting Policies

The Company's interim financial statements for the quarter ended July 31, 2011 have been prepared in accordance with IAS 34, Interim Financial Reporting, using the IFRS standards and interpretations currently issued and expected to be effective at the end of the Company's first annual IFRS reporting period at January 31, 2012. Accounting policies currently adopted under IFRS are subject to change as a result of either new standards being issued prior to January 31, 2012, or as a result of a voluntary change in accounting policy made by the Company during the year. A change in an accounting policy used may result in material changes to the Company's reported financial statements.

Ongoing Activities

The completion of the implementation and commencement of post implementation phases will involve continuous monitoring of the changes implemented to date to ensure completeness and accuracy of the IFRS financial reporting. There may be additional new or revised IFRSs or

IFRICs. There are processes in place to ensure that potential changes are monitored and evaluated.

Impact of IFRS conversion

There was no significant impact with regarding to the Company's existing information and data systems as a result of the conversion from Canadian GAAP to IFRS.

The Company reviewed and evaluated its internal controls over financial reporting, and disclosure. Where necessary, the controls were updated to ensure they are appropriate for IFRS reporting.

Business activities

To date, the transition to IFRS has not had a significant impact on the Company's business activities. The Company's budgeting and forecasting models have been amended to reflect the IFRS changes in accounting policies, reclassifications and measurements of applicable financial statement line items, and the Company has reviewed the terms of its financial covenants as a result of the transition to IFRS.

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 July 31, 2011, 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:

In preparing financial statements, management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ materially from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting policies and estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management.

The Company's significant accounting policies are discussed in Note 2 to the July 31, 2011 Unaudited Interim Consolidated Financial Statements. Critical estimates inherent in these accounting policies are set out below.

Allowance for doubtful accounts - The Company records an allowance for doubtful accounts to reflect management's best estimate of losses that may occur on accounts receivable during the reporting period. This allowance was recorded through a charge to the earnings and takes into consideration the financial condition and recent payment patterns of customers and the general state of the economy. Management believes that the allowance is sufficient to cover any risk of potential losses. Credit losses were within management's expectations.

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.

Property, plant and equipment – The accounting for property, plant and equipment requires that management make estimates involving the life of the assets, the selection of an appropriate method of depreciation and determining whether an impairment of assets exists. The Company reviews the residual values, useful lives of depreciable assets and depreciation method on an annual basis and where revisions are made; the Company applies such changes in estimates on a prospective basis. The net carrying amounts of property, plant and equipment are reviewed for impairment either individually or at the cash-generating unit level at the end of each reporting period. If there are indicators of impairment, as evaluation is undertaken.

Biological assets – The accounting for biological assets requires that management make estimates regarding the fair value of vines and the agricultural produce (grapes). Any changes will be recognized in the profit or loss.

Winery licenses – Winery licenses are intangibles and are subject to periodic impairment tests 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 July 31, 2011.

Deferred income taxes – Deferred income taxes are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized. The carrying amount of deferred income taxes are reviewed at each period and adjusted accordingly.

FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and long-term debt. The fair values of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities as recorded in the consolidated balance sheets approximate their carrying amounts due to the short-term maturities of these financial instruments. The estimated fair value of the long-term debt approximates its carrying value since the long-term debt is subject to terms and conditions similar to those available to the Company for instruments with comparable terms and the interest rates are market based. 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 Company does not use derivative instruments for hedging or for other purposes.

OUTSTANDING SHARE DATA

As of July 31, 2011 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.

Rossana Magnotta
Chief Executive Officer and President
Vaughan, Ontario
September 14, 2011