

MAPLE LEAF REFORESTATION INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Periods Ended June 30, 2012 and July 31, 2011

(Expressed in Canadian dollars)

MAPLE LEAF REFORESTATION INC.

Index to Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2012 and July 31, 2011

	Page
FINANCIAL STATEMENTS	
Notice of No Auditor Review of the Condensed Interim Consolidated Financial Statements	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Loss and Comprehensive Loss	3
Consolidated Statements of Changes in Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-20

Maple Leaf Reforestation Inc.
Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2012 and July 31, 2011

Notice of no auditor review of the condensed interim consolidated financial statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying un-audited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

MAPLE LEAF REFORESTATION INC.
Consolidated Statements of Loss and Comprehensive Loss
[Expressed in Canadian dollars]

		Three months ended		Six months ended	
	Notes	June 30, 2012	July 31, 2011	June 30, 2012	July 31, 2011
Continuing Operations					
Revenue		\$ 274,547	\$ 99,064	\$ 303,732	\$ 140,259
Cost of sales		(204,932)	(117,495)	(225,875)	(174,160)
Change in biological assets	6	(88,067)	-	(18,200)	-
		(18,452)	(18,431)	59,657	(33,901)
Writedown of accounts payable		-	-	-	-
Selling and administrative expenses	15	(144,588)	(259,531)	(296,674)	(568,430)
Interest and other income		-	952	-	1,888
Write down of biological assets	6	-	-	-	(241,557)
Loss for the period		(163,040)	(277,010)	(237,017)	(842,000)
Unrealized exchange differences on translation of foreign operations					
		(113,028)	22,569	12,220	(42,562)
Other comprehensive income (loss) for the period, net of tax		(113,028)	22,569	12,220	(42,562)
Total comprehensive income (loss) for the period, net of tax		\$ (276,068)	\$ (254,441)	\$ (224,797)	\$ (884,562)
Attributable to:					
Equity holders of the parent		\$ (276,068)	\$ (254,441)	\$ (224,797)	\$ (884,562)
Profit (loss) per share, attributable to equity holders of the parent					
- Basic and diluted, for (loss) profit from continuing operations		(0.00)	(0.00)	(0.00)	(0.01)
Loss per share for continuing operations, attributable to equity holders of the parent					
- Basic and diluted, for (loss) profit from continuing operations		(0.00)	(0.00)	(0.00)	(0.01)
Profit (loss) per share for discontinued operations, attributable to equity holders of the parent					
- Basic and diluted, for (loss) profit from discontinued operations		0.00	0.00	0.00	0.00
Weighted average number of shares outstanding - basic and diluted		84,186,427	80,682,875	82,507,184	80,310,415

The accompanying notes are an integral part of these financial statements

MAPLE LEAF REFORESTATION INC.
Consolidated Statement of Financial Position
[Expressed in Canadian dollars]

	Note	June 30, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents		44,031	\$ 22,484
Receivable and prepaids	4	64,392	62,489
Inventories	6	32,681	146,236
Prepaid lease payment, current portion	5	2,816	2,816
Biological assets	6	594,460	597,142
		738,380	831,167
Non-current assets			
Property, plant and equipment	7	1,107,374	1,206,191
Prepaid lease payment, non-current portion	5	99,359	77,593
Deferred charges		-	-
		1,206,733	1,283,784
Total assets		1,945,113	\$ 2,114,951
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		384,992	\$ 479,458
Short term loans	8	69,553	69,553
Convertible debentures	9	132,392	26,152
Deferred income		-	43,979
Deposits		10,434	9,576
		597,371	628,718
Non-current liabilities			
Convertible debentures	9	-	94,726
Total liabilities		597,371	723,444
Equity			
Issued capital	10	8,515,314	8,344,136
Deficit		(11,598,532)	(11,361,515)
Other reserves		4,430,960	4,408,886
Total equity		1,347,742	1,391,507
Total liabilities and equity		1,945,113	\$ 2,114,951

Commitments (Note 16)

Contingency (Note 17)

APPROVED BY BOARD

(signed) Raymond Lai
Director

(signed) Daniel Chu
Director

The accompanying notes are an integral part of these financial statements

MAPLE LEAF REFORESTATION INC.
Consolidated Statements of Changes in Equity
[Expressed in Canadian dollars]

	Note	Number of shares	Issued capital	Contributed surplus	Share Subscription Received	Foreign currency translation reserve	Deficit	Total equity
At January 1, 2012		80,682,875	\$ 8,344,136	\$ 4,509,888	\$ -	\$ (101,002)	\$ (11,361,515)	\$ 1,391,507
Loss for the period		-	-	-	-	12,220	(237,017)	(224,797)
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		80,682,875	8,344,136	4,509,888	-	(88,782)	(11,598,532)	1,166,710
Share-based payment transactions	10			9,854	-	-	-	9,854
Shares issued for debt	10	903,552	45,178					
Private placement, net of share issuance costs	10	2,600,000	126,000	-		-	-	126,000
At June 30, 2012		84,186,427	\$ 8,515,314	\$ 4,519,742	\$ -	\$ (88,782)	\$ (11,598,532)	\$ 1,302,564

	Note	Number of shares	Issued capital	Contributed surplus	Share Subscription Received	Foreign currency translation reserve	Deficit	Total equity
At February 1, 2011		72,458,502	\$ 7,700,711	\$ 4,424,761	\$ 10,000	\$ (201,967)	\$ (10,407,849)	\$ 1,525,656
Loss for the period		-	-	-	-	-	(842,000)	(842,000)
Other comprehensive income		-	-	-	-	(42,562)	-	(42,562)
Total comprehensive income		72,458,502	7,700,711	4,424,761	10,000	(244,529)	(11,249,849)	641,094
Share-based payment transactions	10	578,785	57,879	42,640	-	-	-	100,519
Private placement, net of share issuance costs	10	7,645,588	585,546	-	(10,000)	-	-	575,546
At July 31, 2011		80,682,875	\$ 8,344,136	\$ 4,467,401	\$ -	\$ (244,529)	\$ (11,249,849)	\$ 1,317,159

The accompanying notes are an integral part of these financial statements

MAPLE LEAF REFORESTATION INC.
Consolidated Statements of Cash Flows
[Expressed in Canadian dollars]

		Three months ended		Six months ended	
	Notes	June 30, 2012	July 31, 2011	June 30, 2012	July 31, 2011
OPERATING ACTIVITIES					
Loss before tax from continuing operations		\$ (163,040)	\$ (277,010)	\$ (237,017)	\$ (842,000)
Loss before tax		(163,040)	(277,010)	(237,017)	(842,000)
Items not affecting cash:					
Depreciation and amortization	7	67,385	22,227	89,365	42,719
Accretion on convertible debentures		6,392	5,121	11,514	10,244
Write off inventory		-	-	-	241,557
Change in biological asset		88,067	-	18,200	-
Unrealized foreign exchange and translation		(35,805)	24,670	12,220	(180,820)
Share-based compensation	15	-	33,075	9,854	68,773
		(37,001)	(191,917)	(95,864)	(659,527)
Non-cash working capital adjustments:					
Decrease (increase) in trade receivables and prepayments		18,339	39,736	(1,577)	62,239
Decrease (increase) in inventories		124,995	(49,155)	106,836	170,819
Amount due from (to) related parties		-	21,000	-	(48,317)
Increase (decrease) in deferred income		(77,269)	-	(43,979)	-
Deposits		2	-	859	-
Increase in trade and other payables		1,533	(37,703)	(49,726)	(19,281)
Cash flow used in operating activities		30,599	(218,039)	(83,451)	(494,067)
INVESTING ACTIVITIES					
Increase in land lease		(21,760)	-	(21,002)	-
Purchase of property, plant and equipment		-	(8,003)	-	(9,321)
Net cash flows used in investing activities		(21,760)	(8,003)	(21,002)	(9,321)
FINANCING ACTIVITIES					
Shares issued, net of share issuances costs		-	-	126,000	585,546
Share subscriptions		-	-	-	(10,000)
Payment (repayment) of short term loan		(1,668)	-	-	(72,151)
Net cash flows used in financing activities		(1,668)	-	126,000	503,395
Net increase in cash and cash equivalents		7,171	(226,042)	21,547	7
Cash and cash equivalents, beginning of period		36,860	274,815	22,484	48,766
Cash and cash equivalents, end of period		\$ 44,031	\$ 48,773	\$ 44,031	\$ 48,773

The accompanying notes are an integral part of these financial statements

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

1. Nature of Operations, Seasonality of Operations, Going Concern and Discontinued Operations

Maple Leaf Reforestation Inc. (formerly called "Maple Leaf Nursery Inc."), a development stage company, along with its subsidiary companies and special purpose entities (collectively the "Company"), is engaged in the acquisition, development, and operation of reforestation projects in the People's Republic of China ("China"). The Company currently operates a greenhouse operation to grow tree seedlings in Inner Mongolia in China. The Company is incorporated in Canada

The Company is a publicly traded company listed on the TSX Venture Exchange under the ticker symbol "MPE.V". The primary office is located at 2916B - 19 Street N.E., Calgary, Alberta,

The consolidated interim financial statements were approved by the Board of Directors of the Company for issue on August 28, 2011.

The Company has not yet generated significant revenue from its operations and has incurred recurring losses since inception. Management recognizes that the ability of the Company to carry out its planned business obligations depends on its ability to raise adequate financing from shareholders and other investors, and achieving its profitable operations in the future. If the Company is not able to raise additional funds, there would be significant doubt that the Company is able to continue as a going concern and the operation would be required to be curtailed. There is no assurance that the Company will be able to obtain adequate financing. The Company is in the process of obtaining an equity line of financing. Therefore, the management concludes that the Company has the ability to raise additional funds to meet its financial needs for the next twelve months. As a result, these financial reports do not reflect adjustments, which could be material, to the carrying value of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

Prior to January 31, 2011, the Company was devoting substantially all of its efforts to establishing businesses to grow and sell young tree seedlings, yellowhorn trees, and alfalfa; and produce and sell fertilizer in China. Its planned principal operations have not reached its designed capacity and as a result, significant revenue has not been generated. Effective January 31, 2011, through the termination of various management agreements with the Company's special purpose entities, the Company discontinued its projects in feedstock and fertilizer operations. A summary of financial information for the Company's discontinued operations is as follows:

(i) A Summary of Financial Information on the Company's Discontinued Operations

A summary of financial information for the Company's discontinued operations is as follows:

	Three month ended June 30, 2012	Three month ended July 31, 2011	Three month ended June 30, 2012	Three month ended July 31, 2011
	\$	\$	\$	\$
Revenues	-	-	-	-
Loss from discontinued	-	-	-	-

Net assets of discontinued operations are detailed as follows:

	June 30, 2012	December 31, 2011
	\$	\$
Current assets	270	270
Long term assets		
	270	270
Current liabilities		
Net assets of discontinued operations	270	270

2. Basis of Presentation and Principles of Consolidation

(a) Statement of compliance

These condensed consolidated interim financial statements ("Financial Statements") have been prepared in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board, and as such, do not include all of the disclosures that would be included in annual consolidated financial statements.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

2. Basis of Presentation and Principles of Consolidation (continued)

(a) *Statement of compliance*

The policies applied in these Financial Statements are based on IFRS issued and outstanding as of June 30, 2012. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in note 3.

The Financial Statements have been prepared on the historical cost basis, except for certain financial instruments that have been measured at fair value and biological assets that have been measured at fair value less costs to sale. The Financial Statements are presented in Canadian dollars.

In 2011, the Company changed its year end to December 31 from January 31. As a result, the financial statements are presented for an three and six months June 30, 2012. Comparative financial information for the consolidated statements of loss and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows was reported for February 1, 2011 to July 31, 2011. The year end change was completed to increase the efficiency of reporting that is a result of having the same year end between the subsidiaries and the parent.

Subsidiaries and special purpose entities are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries and special purpose entities are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions are eliminated in full.

The currency that is presented is in Canadian dollar, which differs from the Inner Mongolia operation's functional currency, the Chinese RMB. The Chinese RMB is determined to be the functional currency for the Inner Mongolia operation as it the currency that mainly influences sales prices for goods and services and is the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services. The presentation currency is the Canadian dollar, as this is the functional currency of the Canadian operations and this basis of presentation is more useful to the users of the financial statements.

The Financial Statements include the accounts and operations of Maple Leaf Reforestation Inc. and its wholly owned subsidiaries, Inner Mongolia Maple Leaf Reforestation Ltd. and Xinjiang Maple Leaf Forestry Sci-tech Ltd., and its special purpose entities. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Effective January 31, 2011, upon the termination of the various management agreements with its special purpose entities, the Company had divested its investments and deconsolidated all its special purpose entities.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies

(a) Significant Accounting Policies

Use of estimates and measurement uncertainty

Preparing the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Management continually evaluates these judgments, estimates and assumptions based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates. Critical accounting estimates and judgments include:

Estimated useful lives of property, plant and equipment

Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property, plant and equipment in the future.

Income taxes

Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred taxes, giving consideration to timing and probability. Actual taxes could vary significantly from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustment to the Company's tax assets and tax liabilities. The recognition of deferred income tax assets is subject to judgment and estimation over whether these amounts can be realized.

Biological asset

The fair value of the biological asset, is derived using the future estimated selling prices. Management uses estimates for the expected sales price of seedlings and costs to sell and complete; which are determined by considering historical actual costs incurred on a per seedling basis. The estimated selling price and costs are subject to fluctuations based on the timing of prevailing growing conditions and market conditions.

Stock options, warrants and convertible debentures

The Company's stock options, warrants and convertible debentures are derived from estimates based on available market data at that time which include volatility, interest free rates and share prices.

Significant area requiring the use of management estimates relate to the determination of potential impairments of property, plant and equipment, determination of fair values of stock options, warrants, and financial instruments, determination of net realizable value of inventory as well as valuation of future income taxes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

Special purpose entities ("SPE")

A SPE is defined as an entity which was created to accomplish a well-defined objective with legal arrangements that impose limits on the decision-making powers of the SPE management over the operations of the SPE. The Company created several SPEs for the projects of feedstock and fertilizer operations and controlled these SPEs. In accordance with the IFRS - SIC Interpretation 12, the Company consolidates a SPE as the Company controls the SPEs.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

(Continues)

3. Summary of Significant Accounting Policies (continued)

Financial instruments

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the income statement.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the income statement.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial assets constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the income statement.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the income statement.

Other financial liabilities - This category includes promissory notes, amounts due to related parties and accounts payable and accrued liabilities, all of which are recognized at amortized cost.

The Company has classified its cash and cash equivalents as fair value through profit and loss, receivable as loans and receivables, and accounts payable and accrued liabilities as other financial liabilities.

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 - quoted prices (unadjusted) to active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments are exposed to credit, liquidity and market risks. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge on obligation. Liquidity risks is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Market risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk composes three types of risk: currency risk, interest rate and price risk.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

(Continues)

3. Summary of Significant Accounting Policies (continued)

Foreign currency translation

The Company's consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. Each subsidiary of the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Company and its subsidiaries at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. All differences are taken to the income statement.

Non-monetary items denominated in foreign currencies are also translated at the functional currency spot rate of exchange at the reporting date. Amounts included in equity are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income or loss. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement.

Inventories

Inventory refers to raw materials and labour which are incurred to date on current production and are not defined as a biological asset. Raw material is stated at replacement cost while work-in-progress and finished goods are classified as biological assets and are valued at net realizable value, which is the estimated selling price in the ordinary course of business in the prevailing local market less the estimated costs of completion, if any, and the estimated costs necessary to make the sale. Costs of seedlings include direct material, labor, and manufacturing overhead costs. When the cost of inventory is over its realizable value, the excess cost will be written down and expensed directly. Obsolete inventory and unsellable seedling are written down entirely and the write down is presented as a separate line item on the income statement. Inventory refers to deferred crop costs which are incurred to date on current production and are not defined as a biological asset.

Biological asset

Biological assets consist of the Company's seedlings at the year end. Measurement of the biological asset begins at the start of the winter season as management at this point will count the seedlings ready for shipment and begin preparing them for the winter dormancy stage. Costs related to the seedlings prior to this point are presented in inventory. The seedlings are measured at fair value less costs to sell and costs to complete, with any change therein recognized in profit or loss. Costs to sell include all costs that would be necessary to sell the assets, including finishing and transportation costs.

Revenue recognition

Revenue is recognized when i) the Company has transferred the significant risks and rewards of ownership to its customers, ii) all significant acts have been completed, iii) the Company retains no continuing managerial involvement in, or control of, the goods transferred, and iv) reasonable assurance exists regarding the measurement of consideration that will be derived from sale of goods by the Company and the extent to which goods may be returned. When there is uncertainty as to ultimate collection, revenue is recognized only when cash is received. Amounts received or billed in advance of recognition are shown as deferred revenue.

Property, plant and equipment

Property, plant and equipment are stated at cost and amortized over their estimated useful lives on a straight line basis using the annual amortization rates as follows:

Furniture and Equipment	20%
Motor vehicles	20%
Computer equipment	30%
Leasehold improvement	20%
Greenhouse	5% to 20%

The assets' residual values, useful lives and methods of amortization are reviewed at each financial year end and adjusted prospectively, if appropriate. The Company assesses at the end of each reporting period whether there is an indication that an asset may be impaired.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

(Continues)

3. Summary of Significant Accounting Policies (continued)

Leases

The Company classifies leases as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. It classifies all other leases as operating leases.

The Company recognizes operating lease payments as an operating expense on a straight-line basis over the lease term. Amounts paid in advance for land leases in China are recorded as prepaid lease rentals.

Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. The asset's recoverable amount is higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model will be used.

Assets of discontinued operations

The Company assesses at the end of each reporting period in accordance with IFRS 5. Where the carrying amount of any asset from the discontinued operations exceeds its fair value less costs to sell, the asset is written down to its fair value less costs to sell.

Convertible debentures

Convertible debentures are segregated into debt and equity components at the date of issue. The debt component of the debentures is classified as liability and recorded as the present value of the Company's obligation to make future interest payments and settle the redemption value of the instrument. The carrying value of the debt component is accreted to the original face value of the instrument over the term of the convertible debenture using the effective interest method. The value of the conversion option makes up the equity component of the instrument. The conversion option is recorded using the residual value approach.

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the year of the borrowings using the effective interest method.

Provisions

Provisions for legal claims, where applicable, are recognized in accrued liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Decommissioning liabilities

Decommissioning liabilities are recognized when the Company has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the liability is recognized as part of the cost of the related PP&E or E&E asset.

Decommissioning liabilities are carried on the Consolidated Balance Sheet at their discounted present value, which is remeasured each reporting period in order to reflect the period end discount rate. The liabilities are calculated using a weighted average credit adjusted risk free rate, and are accreted over time for the change in their present value, with this accretion expense included in finance costs on the Consolidated Statement of Income. Actual expenditures incurred are charged against the accumulated obligation. Any difference between the recorded decommissioning liability and the actual retirement costs incurred is recorded as a gain or loss.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

(Continues)

The increase in capitalized costs is amortized to income on a basis consistent with depreciation of the underlying assets. Subsequent changes in the estimated decommissioning liabilities are capitalized and amortized over the remaining useful life of the underlying asset.

Initially, the Company recognizes neither the deferred tax asset relating to the temporary difference on the decommissioning liability nor the corresponding deferred tax liability relating to the temporary difference on the decommissioning asset.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO.

Share-based payment

Certain employees, officers, directors, and consultants of the Company receive remuneration in the form of share-based payments, whereby employees and consultants render services as consideration for equity instruments (equity-settled transactions).

The Company accounts for share-based payment using the fair value method. Under this method, compensation expense for stock options granted to employees, officers, directors, and consultants is measured at fair value at the date of the grant using the Black-Scholes pricing model and is expensed in the consolidated statements of operations over the vesting period of the options granted. The fair value of stock options granted to consultants is measured at the performance commitment date or the date that the service is delivered using the Black-Scholes pricing method.

Upon the exercise of the stock option, consideration received and the related amount transferred from contributed surplus are recorded as issued capital.

Loss per share

Basic loss per share is calculated by dividing the net loss applicable to common shareholders by the weighted average number outstanding for the relevant period.

Diluted loss per share is computed by dividing the net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding if potential dilutive instruments were converted. All outstanding options and warrants are anti-dilutive and therefore have no effect on the determination of loss per share.

Income taxes

The Company applies IAS 12, *Income Taxes*. Income tax consists of current and deferred income tax. Income tax is recognized in the income statement except to the extent that it relates to a business combination, or items recognized directly within equity or in other comprehensive income. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the reporting date.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

(Continues)

3. Summary of Significant Accounting Policies (continued)

Income taxes (continued)

The Company recognizes provisions in respect of uncertain tax positions whereby additional current tax may become payable in future periods following the audit by the tax authorities of prior taxation years. Provisions for uncertain tax positions are based upon management's assessment of the likely outcome of issues associated with assumed permanent differences, interest that may be applied to temporary differences, and the possible disallowance of tax credits and penalties. Provisions for uncertain tax positions are reviewed regularly and are adjusted to reflect events such as the expiry of limitation periods for assessing tax, administrative guidance given by the tax authorities and court decisions.

Deferred tax assets and liabilities are recognized, using the liability method of IAS 12, for the expected tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilized before applicable expiry dates. Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividend in the foreseeable future. Change in tax rates are reflected in the period when the change has been enacted or substantively enacted by the reporting date.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realized or liability is settled, based on tax rates and laws that have been enacted or substantively enacted at 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.

Comparative figures

Certain prior period's figures have been reclassified to conform to the current financial statements presentation.

Future Accounting Standards

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued certain new standards, interpretations, amendments and improvements to existing standards, mandatory for future accounting periods. The most significant of these are as follows, and are all effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted:

IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. Changes to IAS 7 is not expected to have an impact on amounts recorded in the company's financial statements and related disclosures.

IFRS 9, Financial Instruments, addresses classification and measurement of financial assets and financial liabilities, and is effective January 1, 2015, with earlier adoption permitted. The Standard replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement. The new Standard limits the number of categories for classification of financial assets to two: amortized cost and fair value through profit or loss. The requirements for financial liabilities are largely in line with IAS 39. IFRS 9 also replaces the models for measuring equity instruments. Equity instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. The ability to recognize unquoted equity instruments at cost under IAS 39 is eliminated. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of the Company.

IFRS 10, 11, 12 and 13 were all issued in May 2010. IFRS 10 Consolidated Financial Statements replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS 11 Joint Arrangements introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. It eliminates the option of accounting for jointly controlled entities by using proportionate consolidation. IFRS 12 Disclosure of Interests in Other Entities requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

IFRS 13 Fair Value Measurement replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

IAS 19, Employee Benefits, has been amended to make changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which currently reflect different rates, will be replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset).

In addition, under the amended standard, the impact of plan amendments related to past service will no longer be recognized over a vesting period but instead will be recognized immediately in the period of a plan amendment. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures. Changes to IAS 19 is not expected to have an impact on amounts recorded in the Company's financial statements and related disclosures.

IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled to net income in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. IAS 1 is not expected to have a material impact on amounts recorded in the financial statements of the Company.

The Company has not yet determined the impact of these standards on its financial statements.

4. Receivables and prepaid

	June 30, 2012	December 31, 2011
Trade receivables	\$ 63,343	\$ 49,247
GST recoverable	11,271	6,368
Prepaid expenses	6,874	6,874
	\$ 81,488	\$ 62,489

5. Prepaid lease payment

	June 30, 2012	December 31, 2011
Land lease - current	\$ 2,816	\$ 2,816
Land lease - non current	99,359	77,593
	\$ 102,175	\$ 80,409

The Company entered into a 50-year lease for the land where the greenhouse operation is located in Inner Mongolia. The lease payments are to be paid over a 10-year period commencing from the date of the lease. As of June 30, 2012, total prepayments are \$102,175. Under IFRS, the prepaid land lease is classified as prepaid lease payments, broken into a current portion in the prepayment and a non-current portion in the non-current assets.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

6. Inventories and biological assets

	June 30, 2012	December 31, 2011
Raw material and supplies	\$ 32,681	\$ 146,236
	\$ 32,681	\$ 146,236

Information about the biological asset presented on the statement of financial position and in the statement of income is as follows:

Biological Asset

	June 30, 2012	December 31, 2011
Estimated sales value of biological asset	\$ 594,460	\$ 597,142
Fair value of biological asset less costs to sale	594,460	597,142
Less: Actual costs	446,585	431,067
Increase to fair value of biological asset over cost	147,875	166,075
Change in biological asset	\$ (18,200)	\$ 43,577

For the three and six months ended June 30, 2012, there were no material selling costs (three and six months ended July 31, 2011 - \$nil).

During the three and six months ended June 30, 2012, the Company did not write off inventory related to tree seedling operations (three and six months ended July 31, 2011 - \$nil, and \$241,557, respectively.)

7. Property, Plant and Equipment

Property, plant and equipment consist of the following:

Cost	Furniture and equipment	Motor vehicles	Computer equipment	Leasehold improvement	Greenhouse	Total
As at February 1, 2011	\$ 68,736	\$ 23,055	\$ 12,593	\$ -	\$ 1,799,505	\$ 1,903,889
Additions	-	-	534	4,185	8,192	12,911
Disposal	(29,572)	(5,247)	(489)	-	-	(35,308)
Foreign translation impact	1,512	794	-	-	117,971	120,277
As at January 1, 2012	\$ 40,676	\$ 18,602	\$ 12,638	\$ 4,185	\$ 1,925,668	\$ 2,001,769
Additions	-	-	-	-	-	-
Foreign translation impact	(262)	(138)	-	-	(14,191)	(14,591)
As at June 30, 2012	\$ 40,414	\$ 18,464	\$ 12,638	\$ 4,185	\$ 1,911,477	\$ 1,987,178

Accumulated depreciation, depletion and amortization	Furniture and equipment	Motor vehicles	Computer equipment	Leasehold improvement	Greenhouse	Total
As at February 1, 2011	\$ 9,622	\$ 7,172	\$ 11,962	\$ -	\$ 564,807	\$ 593,563
Depreciation, depletion and Disposal	4,270	2,619	114	837	149,566	157,406
Impairment	(956)	(536)	(575)	-	-	(2,067)
As at January 1, 2012	\$ 13,428	\$ 9,766	\$ 11,501	\$ 837	\$ 760,046	\$ 795,578
Depreciation, depletion and Disposal	1,783	1,648	114	453	85,367	89,365
Foreign translation impact	(797)	(336)	-	-	(4,006)	(5,139)
As at June 30, 2012	\$ 14,414	\$ 11,078	\$ 11,615	\$ 1,290	\$ 841,407	\$ 879,804

Net book value	Furniture and equipment	Motor vehicles	Computer equipment	Leasehold improvement	Greenhouse	Total
As at February 1, 2011	\$ 59,114	\$ 15,883	\$ 631	\$ -	\$ 1,234,698	\$ 1,310,326
As at January 1, 2012	\$ 27,248	\$ 8,836	\$ 1,137	\$ 3,348	\$ 1,165,622	\$ 1,206,191
As at June 30, 2012	\$ 26,000	\$ 7,386	\$ 1,023	\$ 2,895	\$ 1,070,070	\$ 1,107,374

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

8. Short Term Loans

During 2011, the Company obtained short term loans from parties related to the Company. \$10,000 was borrowed from an employee of the company, at a 10% interest rate, with no set terms of repayment. Another \$10,000 was borrowed from a contractor for the company, at an interest rate of prime plus 2%, with no set terms of repayment.

9. Convertible Debentures

In July 2010, the Company raised \$102,500 by issuing \$102,500 of convertible debentures bearing an interest rate of 15% per annum with a conversion price of \$0.125 during the first twelve months and \$0.175 during the second twelve months. The Company paid finder's fee in the amount of \$8,200 to various arm's length parties. The Company allocated the net proceeds (\$94,300) to debt component of \$92,273 which was calculated by effective interest rate of 20.7% per annum and equity component of \$2,027.

During the period ended three and six months ended June 30, 2012, the Company recorded interest expenses of \$6,392 and \$11,514, respectively (three and six months ended July 31, 2012 - \$5,122 and \$10,893, respectively).

As at June 30, 2012, the carrying value of the convertible debenture was \$132,392 (December 31, 2011 - \$120,878).

Subsequent to June 30, 2012, the Company received approval to extend the convertible debenture to another year, and now the convertible debenture is maturing on July 30, 2013.

10. Issued capital

(a) Authorized

Unlimited number of common shares without par value.

(b) Private Placements

On February 11, 2011, the Company completed a private placement to raise gross proceeds of \$649,875 (\$10,000 was received as January 31, 2011) by

On February 23, 2011, the Company issued 578,785 common shares to pay two officers for their past management and legal services. The value of these

On February 6, 2012, the Company issued an aggregate of 903,552 common shares having a deemed issuance price of \$0.05 per common share for legal services provided by a wholly owned company of a director.

On February 24, 2012, the Company completed a private placement to raise gross proceeds of \$130,000 by issuing 2,600,000 units at a subscription price of \$0.05 per unit, and each unit consists of one common share and one common share purchase warrant exercisable for five years from the date of closing at a price of \$0.10. In connection with this private placement, the Company paid finder's fee in the amount of \$4,000 to arm's length parties.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

(Continues)

10. Issued capital (continued)

(c) Stock Options

The following is a summary of option transactions:

	Number of options	Weighted average exercise price per share
Balance, January 31, 2011	6,285,000	\$ 0.14
Options granted	2,000,000	\$ 0.13
Options expired or cancelled	(1,500,000)	\$ 0.15
Balance, December 31, 2011	6,785,000	\$ 0.14
Options expired or cancelled	(3,450,000)	\$ 0.14
Balance, June 30, 2012	3,335,000	\$ 0.13

In February 2011, a total of 700,000 options exercisable 350,000 at \$0.125 and 350,000 at \$0.175 vesting over a period over one year were granted to a consultant.

In June 2011, a total of 500,000 options exercisable at \$0.125 and 200,000 vesting over a period of 3 months and 100,000 vesting over a period of 6 months were granted to an officer.

In July 2011, a total of 100,000 options exercisable at \$0.125 and 50,000 vesting over a period of 3 months were granted to an employee of the Company.

In December 2011, a total of 400,000 options exercisable at \$0.125 and 100,000 vesting over a period of 3 months and 100,000 vesting over a period of 6 months were granted to an officer.

During the six month period ended June 30, 2012, a total of 2,750,000 options were cancelled or expired (July 31, 2011 - 1,100,000 options).

No option was granted during the six months ended June 30, 2012, and the weighted average grant date fair value of options granted during the six months ended July 31, 2011 was \$0.06 using the following assumptions as per Black-scholes option pricing model.

	June 30, 2012	July 31, 2011
Weighted average risk free interest rates	N/A	1.64%
Weighted average expected life	N/A	3 years
Weighted average expected volatility	N/A	177%
Weighted average expected dividend yield	N/A	nil

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

(Continues)

10. Issued capital (continued)

The following table summarizes information about stock options outstanding at June 30, 2012:

Exercisable prices	Number of options outstanding	Expiry dates	Remaining contractual life (years)	Numbers of Exercisable at June 30, 2012
\$ 0.125	1,000,000	February 4, 2013	0.60	1,000,000
\$ 0.135	785,000	March 12, 2013	0.70	785,000
\$ 0.140	600,000	August 31, 2013	1.17	600,000
\$ 0.125	450,000	January 18, 2014	1.55	450,000
\$ 0.125	100,000	July 29, 2014	2.08	100,000
\$ 0.125	400,000	December 22, 2014	2.48	400,000
\$0.125 - 0.14	3,335,000			3,335,000

(d) Warrants

The following table summarizes information about warrant transactions:

Number of warrants outstanding as at January 31, 2011	Issued during the period	Number of warrants exercised during the period	Number of warrants outstanding as at December 31, 2011	Exercise price per warrant	Expiry date
5,075,500	-	(5,075,500)	-	\$ 0.200	May 22, 2011
1,000,000	-	-	1,000,000	\$ 0.250	March 24, 2012
2,187,500	-	-	2,187,500	\$ 0.200	August 9, 2012
2,350,000	-	-	2,350,000	\$ 0.125	September 7, 2012
-	7,645,588	-	7,645,588	\$ 0.125	February 14, 2013
-	684,458	-	684,458	\$ 0.085	14-Feb-13
10,613,000	8,330,046	(5,075,500)	13,867,546		

Number of warrants outstanding as at December 31, 2011	Issued during the period	Number of warrants unexercised during the period	Number of warrants outstanding as at June 30, 2012	Exercise price per warrant	Expiry date
13,867,546	-	(1,600,000)	12,267,546	(see above)	(see above)
	2,600,000		2,600,000	\$ 0.010	February 24, 2017
13,867,546	2,600,000	(1,600,000)	14,867,546		

During the period ended June 30, 2012, 1,000,000 warrants expired (July 31, 2011 - nil). A total of 2,600,000 warrants at \$0.10 are exercisable over a five year period were issued upon completion of private placements in February 2012.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

11. Related Party Transactions

The Company has identified its directors and executive staff as key management personnel. Related party transactions of the Company are mainly with companies controlled by directors or officers for their management services provided to the Company, and therefore, such transactions are included in the compensation to key management. Compensation to key management, including fees paid to companies controlled by directors and officers for their services provided, is follows:

	Three months ended		Six months ended	
	June 30, 2012	July 31, 2011	June 30, 2012	July 31, 2011
Management fee, consulting fee, and wages	\$ 32,597	\$ 45,000	\$ 62,428	\$ 126,598
Stock base compensations	-	33,075	5,091	35,698
Total	\$ 32,597	\$ 78,075	\$ 67,519	\$ 162,296

12. Capital Disclosures

The Company's objectives of capital management are to provide returns for shareholders, and comply with any externally imposed capital requirements, if any, to safeguard the entity's ability to support the Company's normal operating requirement on an ongoing basis and continue to develop and expand the reforestation projects in China. Currently, there is no externally imposed capital requirements on the Company.

The capital of the Company consists of convertible debenture and the items included in shareholders' equity. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

As at June 30, 2012, the Company has a total of \$132,392 (December 31, 2011 - \$120,878) of convertible debentures outstanding.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

13. Financial Instruments

The Company manages its exposure to financial risks, including liquidity risk, foreign exchange rate risk, interest rate risk, and credit risk in accordance with its risk management framework. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

(a) Fair value

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments (except convertible debentures) as at June 30, 2012 approximates their fair value because of the short maturities and normal trade term of these instruments.

The following table sets forth the Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy. Those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement.

	Fair value as at June 30, 2012			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	\$ 44,031	\$ -	\$ -	\$ 44,031
	Fair value as at December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	\$ 22,484	\$ -	\$ -	\$ 22,484

(b) Liquidity risk

The liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company's financial liabilities mainly include accounts payable and accrued liabilities, interest payable, short term loan and due to related parties and are current in nature. The Company has incurred recurring loss since inception and not yet generated significant revenue from its projects. As at June 30, 2012, the Company has limited funds to meet its short term financial liabilities and additional financing is required. The Company handles liquidity risk through the management of its capital structure. Note 1 further describes the going concern issue.

(c) Currency risk

The Company undertakes transactions denominated in foreign currencies and as such is exposed to risks due to fluctuations in foreign exchange rates.

The Company conducts certain of its operations in China and thereby a portion of the Company's assets, liabilities, revenue and expenses are denominated in Chinese Renminbi ("RMB"), which was tied to the U.S. Dollar until July 2005 and is now tied to a basket of currencies of China's largest trading partners. The Chinese Renminbi is not a freely convertible currency.

The Company currently does not hedge its foreign currency risk, and the exposure of the Company's financial assets and financial liabilities to foreign exchange risk is summarized as follows:

The amounts are expressed in Canadian dollars equivalents

	June 30, 2012	December 31, 2011
Canadian dollars	\$ 22,512	\$ 19,355
Chinese yuan	85,911	58,744
Total financial assets	\$ 108,423	\$ 78,099
Canadian dollars	\$ 206,031	\$ 295,621
Chinese yuan	178,961	253,388
Total financial liabilities	\$ 384,992	\$ 549,009

As at June 30, 2012, with other variables unchanged, a 1% fluctuation of the Chinese Renminbi against the Canadian dollar would affect comprehensive income by approximately \$930 (December 31, 2011 - \$1,813).

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

(Continues)

13. Financial Instruments (continued)

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents primarily include highly liquid investments that earn interests at market rates that are fixed to maturity. The Company also holds a portion of cash and cash equivalents in bank accounts that earn variable interest rates. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair value of the financial instruments as of March 31, 2012. The Company also holds a two-year convertible debenture, which is expiring on September 8, 2012 bearing a fixed interest rate of 15%.

(e) Credit risk

The Company is expected to credit risk primarily associated to accounts receivable from customers, and cash and cash equivalents. The carrying amount of assets included on the balance sheet represents the maximum credit exposure, and the Company has been undertaking credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks.

The aging of accounts receivable are usually less than 90 days. Overdue amounts are followed up by management. Management has determined that the credit risk associated with accounts receivable at March 31, 2012 is considered to be immaterial.

14. Segment information

(a) Segments

Prior to January 31, 2011, the Company operates in three reportable segments in China, being in the reforestation, feedstock and fertilizer industry in two geographic segments: Canada and China.

Effective January 31, 2011, the Company discontinued its feedstock and fertilizer projects and their related segment information were reclassified as discontinued operations. The continuing operations were disclosed in the following tables:

(b) Segment operation information

(i) The following is the summary of certain long-term assets and total assets of each segment:

	China			
	Canada	Reforestation	Discontinued Operations	Total
As at June 30, 2012				
Property, plant and equipment	\$ 5,445	\$ 1,101,929	\$ -	\$ 1,107,374
Prepaid lease payments, non-current portion	-	99,359	-	99,359
Total Assets	25,697	1,919,416	260	1,945,113
As at December 31, 2011				
Property, plant and equipment	\$ 6,183	\$ 1,200,008	\$ -	\$ 1,206,191
Prepaid lease payments, non-current portion	-	77,593	-	77,593
Total Assets	38,780	2,075,911	260	2,114,951

During the 2011 year, the remaining assets and liabilities relating to a discontinued operation were written off. Most assets of the discontinued operation was written off in the prior year. The management felt that the remaining assets were no longer useful and the remaining liabilities would not be paid.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

(Continues)

14. Segment information (continued)

(ii) The following is a summary of operations for each segment:

Three months ended June 30, 2012					
China					
	Canada	Reforestation	Discontinued Operations		Total
Sales	\$ 6,191	\$ 268,356	\$ -	\$ -	274,547
Cost of sales	-	(204,932)	-	-	(204,932)
Change in biological assets	-	(88,067)	-	-	(88,067)
Gross profit	6,191	(24,643)	-	-	(18,452)
Selling and administrative expenses	(108,654)	(35,934)	-	-	(144,588)
Net profit (loss)	\$ (102,463)	\$ (60,577)	\$ -	\$ -	(163,040)
Three months ended July 31, 2011					
China					
	Canada	Reforestation	Discontinued Operations		Total
Sales	\$ -	\$ 99,064	\$ -	\$ -	99,064
Cost of sales	-	(117,495)	-	-	(117,495)
Change in biological assets	-	-	-	-	-
Gross profit	-	(18,431)	-	-	(18,431)
Selling and administrative expenses	(217,836)	(41,695)	-	-	(259,531)
Interest and other income	952	-	-	-	952
Write down of biological assets	-	-	-	-	-
Net loss	\$ (216,884)	\$ (60,126)	\$ -	\$ -	(277,010)
Six months ended June 30, 2012					
China					
	Canada	Reforestation	Discontinued Operations		Total
Sales	\$ 11,381	\$ 292,351	\$ -	\$ -	303,732
Cost of sales	-	(225,875)	-	-	(225,875)
Change in biological assets	-	(18,200)	-	-	(18,200)
Gross profit	11,381	48,276	-	-	59,657
Selling and administrative expenses	(218,734)	(77,940)	-	-	(296,674)
Net profit (loss)	\$ (207,353)	\$ (29,664)	\$ -	\$ -	(237,017)
Six months ended July 31, 2011					
China					
	Canada	Reforestation	Discontinued Operations		Total
Sales	\$ -	\$ 140,259	\$ -	\$ -	140,259
Cost of sales	-	(174,160)	-	-	(174,160)
Change in biological assets	-	-	-	-	-
Gross profit	-	(33,901)	-	-	(33,901)
Selling and administrative expenses	(490,567)	(77,863)	-	-	(568,430)
Interest and other income	1,769	119	-	-	1,888
Write down of biological assets	-	(241,557)	-	-	(241,557)
Net loss	\$ (488,798)	\$ (353,202)	\$ -	\$ -	(842,000)

Maple Leaf Reforestation Inc.**Notes to Consolidated Financial Statements****For the Three and Six Months Ended June 31, 2012 and July 31, 2011****(Expressed in Canadian dollars, unless otherwise stated)****15. Expenses**

The consolidated expenses are as follows:

	Three months ended		Six months ended	
	June 30, 2012	July 31, 2011	June 30, 2012	July 31, 2011
Travel and promotion	\$ 711	\$ 16,476	\$ 26,986	\$ 70,793
Salaries and wages	32,344	29,197	68,820	53,945
Stock based compensation	-	33,075	9,854	68,773
Rental	8,116	29,328	27,922	60,522
Consulting fees	3,205	30,400	19,524	59,800
Filing and transfer agent	-	3,139	7,511	21,942
Shareholder information and promotion	-	32,904	7,134	58,063
Professional fees	13,540	24,952	24,144	54,452
Amortization	39,383	22,227	44,629	42,719
Management salaries	22,776	22,500	26,250	45,000
Office	7,204	6,695	10,267	14,774
Interest and bank charges	14,738	5,245	17,785	11,147
Meals and entertainment	3,492	1,299	5,526	1,943
Telephone	1,282	2,094	2,525	3,659
Penalties	-	-	-	898
Foreign exchange loss	(2,203)	-	(2,203)	
Total	\$ 144,588	\$ 259,531	\$ 296,674	\$ 568,430

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

16. Commitments

- (a) The Company has entered into a land lease agreement in Inner Mongolia for a term of 50 years ending December 31, 2056. The Company is required to pay an aggregate of \$153,520 (RMB¥950,000) for the whole lease term. The payment is to be made over the first 10 years and a summary of remaining payments are due as follows:

Year	Annual Payments
2013	12,928
2014	12,928
2015	3,232
Total	\$ 29,088

The annual lease expense is \$3,070, which is based on the aggregate value amortized over the 50 year period. The remaining lease obligation over the remaining lease life is \$29,088. The current three month expense is \$2,816.

- (b) The Company has a lease with Giamel Inc. with respect to its Calgary head office location. The lease is for a term of three years, from November 1, 2011 to October 31, 2014, and the remaining lease payment of \$93,168 over the next three years are as follows:

Year	Annual Payments
2012	\$ 43,800
2013	43,800
2014	43,800
Total	\$ 131,400

The Company has currently sub-leased some office space to offset the costs of the lease. Revenue from the sub-lease are estimated to be \$20,571.

- (c) The Company is committed to pay a management fee to its current President and C.E.O. in the amount of \$90,000 annually. If terminated, the President & C.E.O. would be entitled to a termination fee equivalent to one year's full salary.
- (d) c) The Company has a lease with Dundee Canada (GP) Inc. with respect to its head office location. The lease is for a term of five years, from October 2, 2008 to September 30, 2013, and the remaining lease payment of \$237,996 over the next three years is as follows:

Year	Annual Payments
2012	\$ 20,692
2013	21,519
Total	\$ 42,211

- (e) The Company engages the services of various consultants on an 'as needed' basis. Such consultants provide services to the Company including, but not limited to, accounting, marketing, administrative, translation and general advising regarding operational matters of the Company. It is management's belief that the services of such consultants are required to achieve timely and efficient operational execution. Also, the breadth of skills provided by such consultants is needed in light of management's experience and expertise, and to pursue certain operational opportunities.
- (f) In November 2011, the Company announced that Inner Mongolia Ordos City Zhungeer Chak Island Co., Ltd. ("Zhungeer") agreed to purchase 3 million Scots Pine seedlings at 1 Rmb (approximately \$0.16 Cdn) per seedling. Zhungeer paid a non-refundable deposit of 100,000 Rmb (approximately \$16,500 Cdn) on December 1st, 2011. The first tranche of seedlings was delivered in April, 2012.

Maple Leaf Reforestation Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 31, 2012 and July 31, 2011

(Expressed in Canadian dollars, unless otherwise stated)

17. Contingency

The Company was in dispute with a former joint venture partner with respect to a previously planned joint project. The former joint venture partner claimed that the Company had breached its obligations pursuant to their previously entered joint venture agreement, and indicated that it would like to have the matter heard by an arbitrator. The former joint venture partner is seeking compensation of roughly \$75,000. Management of the Company had determined that the former joint venture partner's claim have no merit.

18. Changes in accounting policies

Accounting Standards issued and not applied

In 2011, the International Accounting Standards Board ("IASB") issued a number of new and revised accounting standards which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. These new and revised accounting standards have not yet been adopted and the Company does not plan to early adopt any of the standards.

The following new or revised standards are not expected to have a material impact on the amounts recorded in the financial statements of the Company:

IFRS 10 - Consolidated Financial Statements;

IFRS 12 - Disclosure of Interests in Other Entities;

IAS 27 - Separate Financial Statements;

IFRS 13 - Fair Value Measurement;

IFRS 11 - Joint Arrangements;

Amended IAS 19 - Employee Benefits; and

Amended IAS 28 - Investment in Associates and Joint Ventures.

In 2011, the IASB also issued amended IAS 1 - Presentation of Financial Statements, IFRS 7 - Financial instrument disclosures which is effective for annual periods beginning on or after July 1, 2012 and IFRS 9 - Financial Instruments, which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IAS 1, IFRS 7 and IFRS 9 are not expected to have a material impact on amounts recorded in the financial statements of the Company.

Further details of the new or revised accounting standards and potential impact on the Company can be found in the audited financial statements for the year ended December 31, 2011.