

# **MAPLE LEAF REFORESTATION INC.**

## **CONSOLIDATED FINANCIAL STATEMENTS** **January 31, 2011**

Consolidated Financial Statements

(Expressed in Canadian dollars, unless otherwise stated)

# **Chang Lee LLP**

## **Chartered Accountants**

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### **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of  
**Maple Leaf Reforestation Inc.**

We have audited the accompanying consolidated financial statements of Maple Leaf Reforestation Inc. ("the Company"), which comprise the consolidated balance sheet as at January 31, 2011 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to note 1 in the financial statements, which indicates that the Company incurred a deficit of \$11,063,482 as at January 31, 2011. Along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**Other Matter**

The consolidated financial statements as at January 31, 2010 and for the year then ended, prior to restatement of previously reported amounts as described in note 18, were audited by other auditors who expressed an opinion without reservation in their issued report dated May 11, 2010. We have audited the adjustments to the consolidated financial statements as at January 31, 2010 and in our opinion, such adjustments are, in all material respects, appropriate and have been properly applied.

Vancouver, Canada  
May 27, 2011

**CHANG LEE LLP**

Chartered Accountant

**MAPLE LEAF REFORESTATION INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in Canadian Dollars)

	Notes	January 31, 2011	January 31, 2010
<b>ASSETS</b>			Restated
<b>Current Assets</b>			
Cash and cash equivalent		\$ 48,766	\$ 79,666
Receivables and prepaids	3	106,063	199,000
Inventory	4	524,075	755,527
Due from a related party	10	-	109,205
		<b>678,904</b>	<b>1,143,398</b>
<b>Property, plant and equipment</b>	5	<b>1,310,326</b>	<b>1,746,625</b>
<b>Deferred charges and other assets</b>	6	<b>78,126</b>	<b>290,792</b>
		<b>\$ 2,067,356</b>	<b>\$ 3,180,815</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 298,135	\$ 539,637
Interest payable	8	7,371	29,359
Short term loan	7	72,151	-
Convertible debentures	8	-	438,353
Due to related parties	10	69,317	1,000
		<b>446,974</b>	<b>1,008,349</b>
Convertible debentures	8	<b>94,726</b>	<b>-</b>
<b>Shareholders' Equity</b>			
Share capital	9	7,700,711	6,860,562
Contributed surplus		4,424,761	3,612,645
Share subscription received		10,000	-
Accumulated other comprehensive income		453,666	655,633
Deficit		(11,063,482)	(8,956,374)
		<b>1,525,656</b>	<b>2,172,466</b>
		<b>\$ 2,067,356</b>	<b>\$ 3,180,815</b>
Nature of operations	1		
Commitments	16		

Approved on behalf of the Board

(Signed) Raymond Lai

Director

(Signed) Derek Liu

Director

**MAPLE LEAF REFORESTATION INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Expressed in Canadian dollars except for share figures)

	Note	Year ended January 31,	
		2011	2010
			(Restated)
<b>Sales</b>		\$ 652,995	\$ 147,036
<b>Cost of Sales</b>		(599,123)	(282,647)
<b>Gross profit</b>		53,872	(135,611)
<b>Expenses</b>	14	(1,731,917)	(897,399)
<b>Loss from operation</b>		(1,678,045)	(1,033,010)
<b>Other income and expenses</b>			
Interest income		-	242
Write down of inventory		(175,403)	(267,821)
<b>(Loss) from continuing operations</b>		(1,853,448)	(1,300,589)
<b>Discontinued operations</b>	1		
(Loss) from operations of discontinued components		(468,883)	(862,846)
Gain on disposal of discontinued components		215,223	-
<b>(Loss) on discontinued operations</b>		(253,660)	(862,846)
<b>Net loss</b>		\$ (2,107,108)	\$ (2,163,435)
<b>Changes in other comprehensive loss</b>			
Currency translation adjustment		(201,967)	70,408
<b>Comprehensive loss</b>		\$ (2,309,075)	\$ (2,093,027)
<b>Basic and diluted loss per share:</b>			
- Continuing operations		(0.03)	(0.02)
- Discontinued operations		(0.00)	(0.01)
		\$ (0.03)	\$ (0.03)
<b>Weighted average number of shares outstanding - basis and diluted</b>		66,766,137	59,890,100

**MAPLE LEAF REFORESTATION INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Expressed in Canadian dollars except for share figures)

	Share capital					Total shareholders' equity		
	Notes	Numbers of shares	Amount	Contributed surplus	Share subscription received		Accumulated other comprehensive income	Deficit
Balance, January 31, 2009 (Restated)		56,511,127	\$6,502,763	\$3,318,095	\$ -	\$585,225	\$ (6,792,939)	\$3,613,144
Private placement, net of share issuance costs		5,075,500	285,167	220,148		-	-	505,315
Equity element of convertible debenture		-	-	51,458		-	-	51,458
Conversion from debenture		700,000	72,632	(6,670)		-	-	65,962
Stock based compensation		-	-	29,614		-	-	29,614
Loss for the year		-	-	-		-	(2,163,435)	(2,163,435)
Unrealized gain on translation of foreign operation		-	-	-		70,408	-	70,408
Balance, January 31, 2010 (Restated)		62,286,627	6,860,562	3,612,645	-	655,633	(8,956,374)	2,172,466
Conversion from debenture		4,700,000	514,768	(44,788)		-	-	469,980
Equity element of convertible debenture		-	-	2,027		-	-	2,027
Stock based compensation	9(c)	-	-	598,758		-	-	598,758
Shares issued upon private placement	9(b)	5,537,500	325,381	256,119		-	-	581,500
Cancellation of escrow shares		(65,625)	-	-		-	-	-
Share subscription received		-	-	-	10,000			10,000
Loss for the year		-	-	-		-	(2,107,108)	(2,107,108)
Unrealized loss on translation of foreign operation		-	-	-		(201,967)	-	(201,967)
Balance, January 31, 2011		72,458,502	\$7,700,711	\$4,424,761	\$10,000	\$453,666	\$ (11,063,482)	\$1,525,656

**MAPLE LEAF REFORESTATION INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
(Expressed in Canadian Dollars)

	<b>Year ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
		Restated
<b>Operating activities</b>		
Loss from continuing operations	\$ (1,853,448)	\$ (1,300,589)
Add (deduct) items not affecting cash		
Amortization	170,638	11,556
Accretion on convertible debentures	12,091	55,982
Foreign exchange loss	4,950	-
Stock based compensation	598,758	29,614
Write down of inventory	175,403	267,983
	(891,608)	(935,454)
Changes in non-cash working capital		
Receivables and prepaids	(1,553)	43,809
Inventory	1,306	(279,969)
Due from/to related parties	183,210	-
Accounts payables and accrued liabilities	7,852	102,073
Deferred income	(34,082)	70,950
Cash used in continuing operations	(734,875)	(998,591)
Cash provided (used) in discontinued operations	(12,257)	(36,791)
Cash used in operating activities	(747,132)	(1,035,382)
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(27,035)	-
Acquisition of land lease	(16,720)	(8,250)
Cash used in continuing operations	(43,755)	(8,250)
Cash provided (used) in discontinued operations	1,706	(333,184)
Cash used in investing activities	(42,049)	(341,434)
<b>Financing activities</b>		
Proceeds from short term loan	70,500	-
Funds from convertible debentures, net of commissions	94,300	533,000
Shares issued, net of share issuance costs	581,500	505,315
Share subscription received in advance	10,000	-
Cash provided in financing activities	756,300	1,038,315
<b>Effect of exchange rate changes on cash and cash equivalent</b>	<b>1,981</b>	<b>(14,190)</b>
<b>Increase (decrease) in cash and cash equivalent</b>	<b>(30,900)</b>	<b>(352,691)</b>
<b>Cash and cash equivalent, beginning of year</b>	<b>79,666</b>	<b>432,357</b>
<b>Cash and cash equivalent, end of year</b>	<b>\$ 48,766</b>	<b>\$ 79,666</b>
<b>Supplemental information:</b>		
Interest paid	\$ 59,250	\$ -
Income tax paid	\$ -	\$ -

# MAPLE LEAF REFORESTATION INC.

## Notes to the Consolidated Financial Statements

January 31, 2011

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*(Expressed in Canadian dollars, unless otherwise stated)*

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### 1. NATURE OF OPERATIONS

Maple Leaf Reforestation Inc. (formerly called “Maple Leaf Nursery Inc.”), a development stage company, along with its subsidiary companies and variable interest entities (collectively the “Company”), is engaged in the acquisition, development, and operation of reforestation projects in the People’s Republic of China (“China”).

#### Going Concern

These consolidated financial statements have been prepared using accounting principles applicable to a going concern. As at January 31, 2011, the Company’s had cash and cash equivalent \$48,766 (January 31, 2010 – \$79,666), working capital of \$231,930 (January 31, 2011 - \$135,049) and a deficit of \$11,063,482 (January 31, 2010 - \$8,956,374).

The Company has not yet generated significant revenue from its projects 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. However, although there is no assurance that the Company will be able to obtain adequate financing, the Company raised \$756,300 through debt and equity financing during the year ended January 31, 2011 and completed a private placement and raised approximately \$640,000 subsequent to the year end and in the process to raise additional funds. Therefore, 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 statements 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.

#### Discontinued Operations

Prior to January 31, 2011, the Company was devoting substantially all of its efforts to establishing businesses to plant and sell young tree seedlings, yellowhorn trees, and alfalfa, and produce and sell fertilizer in China. Its planned principle operation has 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 variable interest entities, the Company discontinued its projects in feedstock and fertilizer operations. Pursuant to CICA Handbook Section 3475 “Disposal of Long-Lived Assets and Discontinued Operations”, the consolidated financial statements of the Company have been reclassified to reflect discontinued operations of projects in feedstock and fertilizer operations.



# MAPLE LEAF REFORESTATION INC.

## Notes to the Consolidated Financial Statements

January 31, 2011

*(Expressed in Canadian dollars, unless otherwise stated)*

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

	Year ended January 31, 2011	Year ended January 31, 2010
	\$	\$
Revenues	82,895	278,353
Loss from discontinued components	(468,833)	(862,846)
Gain on disposal of discontinued components	215,223	-

**Net assets of discontinued operations are detailed as follows:**

	January 31, 2011	January 31, 2010
	\$	\$
Current assets	270	140,890
Long term assets	35,568	516,049
	35,838	656,939
Current liabilities	29,197	222,714
Net assets of discontinued operations	6,641	434,225

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(a) Basis of Presentation and Principles of Consolidation*

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. They 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 variable interest entities. Effective January 31, 2011, upon the termination of the various management agreements with its variable interest entities, the Company had divested its investments and deconsolidated all its variable interest entities.

All significant inter-company transactions and accounts have been eliminated upon consolidation.

*(b) Significant Accounting Policies*

(i) Use of estimates and measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas 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

# MAPLE LEAF REFORESTATION INC.

## Notes to the Consolidated Financial Statements

January 31, 2011

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*(Expressed in Canadian dollars, unless otherwise stated)*

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value of inventory as well as valuation of future income taxes. Actual results could differ from those estimates.

### (ii) Variable interest entity ("VIE")

A VIE is defined as an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. The Company consolidates a VIE when the Company has a variable interest that absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, in compliance with the Accounting Standards Board's ("AcSB") Accounting Guideline 15 ("AcG15") "Consolidation of Variable Interest Entities".

### (iii) Financial instruments

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the asset or liability. All financial instruments are classified into one of the following categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement recognition of changes in the value of financial instruments depends on their initial classification.

Financial instruments classified as held-for-trading are measured at fair value with unrealized gains or losses recognized in operating results.

Financial instruments classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Decline in the fair value of available-for-sale financial assets below their cost bases that are considered to be other-than-temporary are recognized in the statement of operations. Unrealized gains or losses are reported as other comprehensive income or loss until realized or other than temporary decline in fair value have been determined to have occurred. Factors that contribute to an other than temporary decline or impairment include a significant and prolonged decline in fair value below its cost, and the existence of factors such as significant adverse changes in the market and economic environments in which the Company operates, which indicate the prospects for recovery in the fair value of the investment are compromised in the near term.

Financial instruments classified as held-to-maturity, loans and receivable or other financial liabilities are initially measured at fair value and subsequently measured at amortized cost using effective interest rate method.

The Company designated cash and cash equivalents as held for trading, receivables and amount due from related parties as loan and receivables and accounts payables and accrued liabilities, interest payable, short term loan, convertible debentures, and amount due to related parties as other financial liabilities which are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

# MAPLE LEAF REFORESTATION INC.

## Notes to the Consolidated Financial Statements

January 31, 2011

*(Expressed in Canadian dollars, unless otherwise stated)*

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### (iv) Foreign currency translation

All of the Company's subsidiaries or variable interest entities in China operate as self-sustaining foreign operations, and the respective accounts have been translated into Canadian dollars in accordance with the current rate method. Assets and liabilities are translated at the exchange rates prevailing at the balance sheet dates, and revenue and expenses are translated on the basis of average exchange rates during the periods. Any unrealized gain or loss arising from the translation of these accounts is deferred and included as a component of shareholders' equity, as part of cumulative other comprehensive income.

### (v) Inventories

Inventories consist of work-in-progress, finished goods, and raw materials and are using weighted average method of determining the costs applicable to items in its inventories.

Raw material is stated at replacement cost while work-in-progress and finished goods are valued at the lower of cost and 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 seedling, alfalfa, and fertilizer 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. Obsolescent inventory and un-survival seedling are written down entirely and the write down is presented as a separate line item on the income statements.

### (vi) 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.

### (vii) 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%

### (viii) Impairment of long-lived assets

# MAPLE LEAF REFORESTATION INC.

## Notes to the Consolidated Financial Statements

January 31, 2011

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*(Expressed in Canadian dollars, unless otherwise stated)*

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Long lived assets are reviewed for impairment charges whenever events of changes in circumstances indicate that the carrying amount may not be recoverable from the future undiscounted net cash flows expected to be generated by the asset. If the asset is not recoverable, an impairment charges would be recognized in that period for the difference between the carrying value of the asset and its estimated fair value based on the discounted net future cash flow or quoted market price.

### (ix) 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 a 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.

### (x) Stock based compensation

The Company accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted to employees, officers, and directors 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 share capital.

### (xi) Loss per share

Basic loss per common share is calculated by dividing loss available to common shareholders by the weighted average number outstanding during the year. For all periods presented, loss available to common shareholders equal the reported loss.

Diluted loss per share is calculated by the treasury stock method. All outstanding options and warrants are anti-dilutive and therefore have no effect on the determination of loss per share.

### (xii) Income taxes

Income taxes are accounted for using the liability method. Current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined by the differences between the tax and accounting basis of assets and liabilities. The benefit of losses available to be carried forward to future years for tax purposes is recognized only if it is more likely than not that it will be realized. Future income taxes are

# MAPLE LEAF REFORESTATION INC.

## Notes to the Consolidated Financial Statements

January 31, 2011

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*(Expressed in Canadian dollars, unless otherwise stated)*

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estimated using the substantially enacted tax rates expected to be in effect, when the differences reverse, in the jurisdiction where the Company is operating.

### (xiii) Comparative figures

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

### *(c) Future Accounting Pronouncements*

In February 2008, the Accounting Standards Board (AcSB) confirmed that Canadian public companies will have to adopt International Financial Reporting Standards (IFRS) effective for years beginning on or after January 1, 2011. IFRS will replace Canada's current generally accepted accounting principles. Companies will be required to provide comparative IFRS information for the previous fiscal year.

The Company anticipates implementation of these standards in its first quarter of fiscal year 2012 and is continuing to assess the impact this new framework will have on its financial statements. The Company's management will continue to monitor the transitional developments and provide disclosures of the key elements of our plan, including accounting policies, financial reporting, information technology, and progress as information becomes available during the transition period.

To transition to IFRS, the Company must apply "IFRS 1 – First Time Adoption of IFRS" which sets out the rules for first time adoption. In general, IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for the entity's first IFRS financial statements. IFRS 1 contains certain mandatory and optional exemptions that the Company is currently assessing.

Management has commenced a comprehensive review of the impact of IFRS on the Company's financial statements. The objective of this review is to highlight, initially, all potential differences that are significant to the Company.

At the completion of this assessment, management will be in a position to disclose all major differences possibly impacting the Company's financial statements and to begin quantification of the effects. The review is currently underway with preliminary results indicating very minor effects on the Company due to the nature of its business. Concurrently, management is also evaluating its internal reporting structure, to determine if any changes may be required.

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. Prospective application of the standard is effective January 1, 2011, with early adoption permitted.

# MAPLE LEAF REFORESTATION INC.

## Notes to the Consolidated Financial Statements

January 31, 2011

*(Expressed in Canadian dollars, unless otherwise stated)*

The CICA concurrently issued Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interests” which replace Section 1600 “Consolidated Financial Statements”. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 “Business Combinations”. This new section will only have an impact on the Company’s financial statement for future acquisitions upon completion of its Qualifying Transaction.

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence (“VSOE”) or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the abstract is adopted early, in a reporting period that is not the first reporting period in the entity’s fiscal year, it must be applied retroactively from the beginning of the Company’s fiscal period of adoption. The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

### 3. RECEIVABLES AND PREPAIDS

Receivables and prepaids consist of the following:

	January 31, 2011	January 31, 2010
		(Restated)
Accounts receivables	\$ 20,137	\$ 98,323
Sales tax recoverable	22,646	3,012
Prepaid expenses	63,280	97,665
	<b>\$ 106,063</b>	<b>\$ 199,000</b>

### 4. INVENTORY

Inventory consists of the following

# MAPLE LEAF REFORESTATION INC.

## Notes to the Consolidated Financial Statements

January 31, 2011

*(Expressed in Canadian dollars, unless otherwise stated)*

	January 31, 2011	January 31, 2010
Raw material and supplies	\$ 206,117	\$ 161,171
Seedling	317,958	594,356
	<b>\$ 524,075</b>	<b>\$ 755,527</b>

During the year ended January 31, 2011, the Company wrote off \$235,191 inventory (fiscal 2010 - \$495,077), of which, a total of \$175,403 (fiscal 2010 - \$267,821) was related to reforestation operation and a total of \$59,788 (fiscal 2010 - \$227,256) was related to the discontinued operations (feedstock and fertilizer).

## 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	January 31, 2011			January 31, 2010		
	Costs	Amortization	Net book value	Costs	Amortization	Net book value
Furniture and equipment	\$ 68,736	\$ (9,622)	\$ 59,114	\$ 209,313	\$ (16,739)	\$ 192,574
Motor Vehicles	23,055	(7,172)	15,883	78,302	(10,541)	67,761
Computer equipment	12,593	(11,962)	631	15,006	(12,283)	2,723
Leasehold improvements	-	-	-	48,796	(2,648)	46,148
Greenhouse	1,799,505	(564,807)	1,234,698	1,856,962	(419,543)	1,437,419
	<b>\$ 1,903,889</b>	<b>\$ (593,563)</b>	<b>\$ 1,310,326</b>	<b>\$ 2,208,379</b>	<b>\$ (461,754)</b>	<b>\$ 1,746,625</b>

During the year ended January 31, 2011, as a result of the discontinued operations of fertilizer alfalfa and feedstock project, the Company wrote off and recorded a total of \$236,725 impairment on property, plant and equipment associated with the fertilizer, alfalfa and feedstock projects. This amount has been included in loss from operations of discontinued components.

## 6. DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets consist of the following:

	January 31, 2011			January 31, 2010 (restated)		
	Costs	Amortization	Net book value	Costs	Amortization	Net book value
Land lease	\$ 92,537	\$ (14,412)	\$ 78,126	\$ 78,000	\$ (11,856)	\$ 66,144
Patents	-	-	-	163,800	(846)	162,954
Other long-term assets	-	-	-	61,694	-	61,694
	<b>\$ 92,537</b>	<b>\$ (14,412)</b>	<b>\$ 78,126</b>	<b>\$ 303,494</b>	<b>\$ (12,702)</b>	<b>\$ 290,791</b>

Deferred charges and other assets included deferred charges, which are patent use rights, deferred land lease, and biological assets. Due to the unsuccessful yellowhorn tree and alfalfa feedstock operation in Xinjiang and unsuccessful fertilizer operation in Hunan, the Company wrote off and recorded \$218,097 (fiscal 2010 - \$129,864) impairment on deferred charges and

# MAPLE LEAF REFORESTATION INC.

## Notes to the Consolidated Financial Statements

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other assets for the year ended January 31, 2011. This amount has been included in loss from operations of discontinued components.

### 7. SHORT TERM LOAN

During the fiscal year 2011, the Company obtained a short term loan of \$70,500 from an employee of the Company. The loan is unsecured, bearing interest at 15% per annum and due on February 28, 2011. As at January 31, 2011, the Company accrued interest of \$1,651 and recorded a total short term loan of \$72,155.

Subsequent to the year end, the Company obtained additional short term loan of \$7,100 from the same employee with the same term of the above noted short term loan. On February 22, 2011, the Company repaid the above short term loans of \$77,600 with interest of \$2,301 in full.

### 8. CONVERTIBLE DEBENTURES

In July 2009, the Company announced a non-brokered private placement of \$500,000 of convertible debentures, which carry an interest rate of 15% payable on maturity, that being one year from the closing of the private placement (the "Maturity Date"). The debenture will be convertible at the option of the holder into common shares of the Company at any time prior to the Maturity Date at a conversion price equal to \$0.10 per common share. For convertible debentures converts prior to the maturity, the accrued interest payable will be forfeited upon the conversion. The common shares issued upon conversion of the debenture will be subject to a four month holding period commencing from the date of such conversion. This private placement was oversubscribed and closed on September 30, 2009. The Company received subscriptions for \$540,000 worth of convertible debentures and paid finder's fee in the amount of \$10,850 to various arm's length parties. The Company allocated the net proceeds (\$529,150) to debt component of \$477,692 which was calculated by effective interest rate of 30% per annum and equity component of \$51,458. During the fiscal year ended January, 31, 2010, principals of \$70,000 were converted into 700,000 common shares and the Company recorded \$72,632 to share capital which included \$6,670 reclassified from contributed surplus for the allocated equity component upon the issuance of the convertible debentures. During the year ended January 31, 2011, the remaining principals of \$470,000 were converted into 4,700,000 common shares and the Company recorded \$514,768 to share capital which included \$44,788 reclassified from contributed surplus for the allocated equity component upon the issuance of the convertible debentures.

In September 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.



# MAPLE LEAF REFORESTATION INC.

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During the year ended January 31, 2011, the Company recorded interest expenses of \$71,941 (2010 - \$55,982). As at January 31, 2011, interest payable for the remaining convertible was \$7,371 (January 31, 2010 - \$29,359).

As at January 31, 2011, the carrying value of the convertible debenture was \$94,726 (January 31, 2010 - \$438,353).

### 9. SHARE CAPITAL

#### *(a) Authorized*

Unlimited number of common shares without par value.

#### *(b) Private Placements*

In May 2009, the Company completed a private placement and received subscriptions of 5,075,500 units at a subscription price of \$0.10 per unit for gross proceeds of \$507,550. Each unit consists of one common share and one common share purchase warrant at 0.20 per share exercisable until May 22, 2011. The Company allocated the proceeds to common shares and warrants at their relative fair value which the fair value of warrants was estimated by using Black-Scholes model with assumptions of 165% volatility, 1.35% risk free rate, and no dividend. The Company allocated \$285,167 and \$220,148 to common shares and warrants, respectively.

In March 2010, the Company closed a private placement with the family of the CEO of the Company which raised gross proceeds of \$150,000. The private placement comprised of 1,000,000 units and each unit consisted of one common share and one common share purchase warrant, which enables the holder to exercise the warrants at \$0.25 per share before March 25, 2012. The Company allocated the proceeds to common shares and warrants at their relative fair value which the fair value of warrants was estimated by using Black-Scholes model with assumptions of 191% volatility, 1.54% risk free rate, and no dividend yield. The Company allocated \$83,045 and \$66,955 to common shares and warrants, respectively.

During the year ended January 31, 2011, the Company completed a series of private placements to raise gross proceeds of \$453,750. The private placements comprised of 4,537,500 units and each unit consisted of one common share and one common share purchase warrant, which enable the holder to exercise the warrant at \$0.20 per share over a two-year period. The Company paid finder's fees in the amount of \$27,500 in connection with the issuance. The Company allocated the proceeds to common shares and warrants at their relative fair value which the fair value of warrants was estimated by using Black-Scholes model with weighted average assumptions of 187% volatility, 1.44% risk free rate, and no dividend yield. The Company allocated \$237,086 and \$189,164 to common shares and warrants, respectively.

Subsequent to January 31, 2011, the Company completed a private placement to raise gross proceeds of \$649,875 (\$10,000 was received as January 31, 2011) by issuing 7,645,588 units at a subscription price of \$0.085 per unit, and each unit consists of one common share and one common share purchase warrant exercisable for two years from the date of closing at a price of

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\$0.125. In connection with this private placement, the Company paid finder's fee in the amount of \$54,179 and issued 684,458 options (the "agent's option") to arm's length parties. The agent's options will be exercisable into common shares of the Corporation for two years from the date of closing at a strike price of \$0.085 per share.

# MAPLE LEAF REFORESTATION INC.

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### *(c) Stock Options*

The following is a summary of option transactions:

	Number of options	Weighted average exercise price per share
Balance, January 31, 2009	5,716,000	\$ 0.27
Option granted	300,000	0.11
Balance, January 31, 2010	6,016,000	0.26
Options granted	4,400,000	0.14
Options repriced - new	1,505,000	0.135
Options repriced - old	(1,505,000)	0.32
Options expired or cancelled	(4,331,000)	0.24
<b>Balance, January 31, 2011</b>	<b>6,085,000</b>	<b>\$ 0.14</b>

In February 2010, a total of 2,400,000 options vesting immediately at an exercise price of \$0.125 and with a life of three years were granted to directors, officers, employees, and consultants. In June 2010, a total of 200,000 options with various vesting schedules and a life of three years were granted a consultant. Of the 200,000 options, 100,000 options are exercisable at \$0.20 and the remaining 100,000 options are exercisable at \$0.35.

In March 2010, a total of 1,505,000 options previously granted to directors, officers, and employees, of which 50,000 options with an exercise price of \$0.39 maturing at March 25, 2011 and 1,455,000 options with an exercise price of \$0.32 maturing at June 23, 2011, were modified to be exercisable at \$0.135 maturing on March 12, 2012.

In August 2010, a total of 900,000 options exercisable at \$0.14 and vesting immediately with a life of three years were granted to directors and officers. In October 2010, a total of 450,000 options exercisable at \$0.13 and vesting immediately with a life of three years were granted to a consultant.

In January 2011, a total of 450,000 options exercisable at \$0.13 vesting over six-month period with a life of three years were granted to an employee and a consultant.

During the year ended January 31, 2011, a total of 4,331,000 options were cancelled or expired.

Subsequent to January 31, 2011, a total of 350,000 options exercisable at \$0.125 vesting six months later after the grant date were granted to a consultant, and a total of 350,000 options exercisable at \$0.175 vesting one year later after the grant date were granted to the same consultant. Also, a total of 684,458 options exercisable at \$0.085 per share over a two-year period were granted to arm's length parties as agent's commission fee associated to the private placement completed in February 2011.

The following is the summary of assumptions used to estimate the fair value of each option granted using the Black-Scholes option pricing model.

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	<b>Years ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
Weighted average risk free interest rates	<b>1.64%</b>	1.43%
Weighted average expected life	<b>3 years</b>	2.25 years
Weighted average expected volatility	<b>177%</b>	154%
Weighted average expected dividend yield	<b>nil</b>	nil

The weighted average grant date fair value of options granted during the year ended January 31, 2011 was \$0.12 (fiscal 2010 - \$0.08) and a total of \$598,758 (fiscal 2010 – \$29,614) stock-based compensation expenses was recorded on the consolidated statements of operations.

The following table summarizes information about stock options outstanding at January 31, 2010:

	Exercise prices	Number of options outstanding	Expiry dates	Remaining contractual life (years)	Number of options exercisable at January 31, 2011
\$	0.11	300,000	February 4, 2013	2.01	300,000
\$	0.20	500,000	April 27, 2012	1.24	500,000
\$	0.125	1,950,000	February 4, 2013	2.01	1,950,000
\$	0.135	1,335,000	March 12, 2013	2.11	1,335,000
\$	0.20	100,000	June 30, 2013	2.41	100,000
\$	0.35	100,000	June 30, 2013	2.41	100,000
\$	0.14	900,000	August 31, 2013	2.58	900,000
\$	0.13	450,000	October 1, 2013	2.67	450,000
\$	0.13	450,000	January 18, 2014	2.97	200,000
<b>\$</b>	<b>0.11 - 0.35</b>	<b>6,085,000</b>			<b>5,835,000</b>

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### *(d) Warrants*

The following table summarizes information about warrant transactions:

Number of warrants outstanding as at January 31, 2009	Issued during the period	Number of warrants exercised during the period	Number of warrants outstanding as at January 31, 2010	Exercise price per warrant	Expiry date
723,334	-	723,334	-	\$ 2.00	December 14, 2009
-	5,075,500	-	5,075,500	\$ 0.20	May 22, 2011
723,334	5,075,500	723,334	5,075,500		

Number of warrants outstanding as at January 31, 2010	Issued during the period	Number of warrants exercised during the period	Number of warrants outstanding as at January 31, 2011	Exercise price per warrant	Expiry date
5,075,500	-	-	5,075,500	\$0.20	May 22, 2011
-	1,000,000	-	1,000,000	\$0.25	March 24, 2012
-	2,187,500	-	2,187,500	\$0.20	August 9, 2012
-	2,350,000	-	2,350,000	\$0.20	September 7, 2012
<b>5,075,500</b>	<b>5,537,500</b>	<b>-</b>	<b>10,613,000</b>		

Subsequent to January 31, 2011, the 5,075,500 warrants issued in fiscal year 2010 expired unexercised. A total of 7,645,588 warrants with a strike price of \$0.125 exercisable over a two year period were issued upon completion of a private placement in February 2011.

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### 10. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in the financial statements are as follows:

Transactions with related parties	Year ended January 31,	
	2011	2010
Rents from companies associated with a director and officer (a)	\$ 87,378	\$ 106,828
Management fee to a director and officer (b)	90,000	90,000
Legal fee to a director and officer (d)	60,000	46,621
Consulting fee to a director and officer (f)	12,500	-
Legal fee to Gowlings Lafleur Henderson LLP (c)	-	24,600

The transactions with related parties during the year were measured at exchange amount, which is the amount of consideration established and agreed by the parties.

As at January 31, 2011, the balances with related parties, which are unsecured, non-interest bearing, and due on demand, are as follows:

Amount due from a related party	January 31, 2011	January 31, 2010
Surge Technologies Inc. (a)	\$ -	\$ 109,205

  

Amount due to a related party	January 31, 2011	January 31, 2010
A directors and officers (d,e,&f)	\$ 69,317	\$ 1,000

- (a) Surge Technologies Inc. ("Surge") was a public company with a director and officer in common with the Company. The Company subleased approximately 70% of its office space to Surge. In April 2010, Surge farmed-out its operation, including the sublease, to Nice Technologies Inc. ("Nice"), a private company with a director and officer in common with the Company. During the year ended January 31, 2011, both Surge and Nice were wound down, and accordingly, the Company wrote off all receivables from Surge and Nice and a total of \$173,193 bad debts were recorded for the year ended January 31, 2011.
- (b) During the year ended January 31, 2011, the Company paid \$90,000 (fiscal 2010 - \$90,000) to a director and officer of the Company for his management services.
- (c) During the year ended January 31, 2011, the Company paid \$nil (fiscal 2010 - \$24,600) to Gowing Lafleur Henderson LLP, a law firm which a director and officer was a member, for its legal services provided.
- (d) During the year ended January 31, 2011, the Company incurred legal fees of \$60,000 (fiscal 2010 - \$46,621) payable to Brad R Docherty Professional Corporation, a law firm which a director and officer is a member, and the director and officer for legal services provided. As at January 31, 2011, a total of \$52,746 remained outstanding.

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- (e) As at January 31, 2011, \$13,771 (January 31, 2010 - \$1,000) is payable to directors and officers of the Company for reimbursement of expenses incurred on behalf of the Company.
- (f) During the year ended January 31, 2011, the Company incurred consulting fee of \$12,500 (fiscal 2010 – \$nil) payable to Decapital Inc., a private company controlled by a director and officer of the Company for consulting services provided. As at January 31, 2011, a total of \$2,800 remained outstanding.

The transactions with related parties are measured at the exchange amount, which is the amount of consideration established and agreed by the parties. The balances with related parties are unsecured, non-interest bearing, and due on demand.

### 11. 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.

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 January 31, 2011, the Company had a total of \$94,726 (January 31, 2010 - \$438,353) of convertible debentures outstanding.

### 12. 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 January 31, 2011 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

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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 January 31, 2011			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Cash and cash equivalents	\$ 48,766	\$ -	\$ -	\$ 48,766

### *(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 January 31, 2011, 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.

### *(c) Exchange 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, revenues 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	January 31, 2011		January 31, 2010	
				(Restated)
Canadian dollars	\$	4,437	\$	166,226
Chinese yuan		64,466		120,968
Total financial assets	\$	68,903	\$	287,194
Canadian dollars	\$	459,207	\$	552,945
Chinese yuan		82,493		455,404
Total financial liabilities	\$	541,700	\$	1,008,349

As at January 31, 2011, with other variables unchanged, a 1% strengthening (weakening) of the Chinese Renminbi against the Canadian dollar would have decreased (increase) other comprehensive income by approximately \$30,322 (January 31, 2010 - \$23,518).



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### *(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 values of the financial instruments as of January 31, 2011. 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 exposed 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 less than 90 days, and, as a result, the credit risk associated with accounts receivable at January 31, 2011 is considered to be immaterial.

## 13. SEGMENTED 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:

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		Canada	China	Reforestation	Discontinued Operations	Total
<b>As at January 31, 2011</b>						
Property, plant, and equipment	\$	2,079	\$	1,272,679	\$ 35,568	\$ 1,310,326
Deferred charges and other assets		-		78,126	-	78,126
<b>Total Assets</b>		<b>92,443</b>		<b>1,939,075</b>	<b>35,838</b>	<b>2,067,356</b>
<b>As at January 31, 2010 (Restated)</b>						
Property, plant, and equipment	\$	3,080	\$	1,452,144	\$ 291,401	\$ 1,746,625
Deferred charges and other assets		-		66,143	224,649	290,792
<b>Total assets</b>		<b>139,189</b>		<b>2,154,685</b>	<b>886,941</b>	<b>3,180,815</b>

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

		Year ended January 31, 2011			
		China			
		Canada	Reforestation	Discontinued Operations	Total
Sales	\$	-	\$ 652,995	\$ 86,944	\$ 739,939
Cost of sales		-	(599,123)	(30,363)	(629,486)
Gross profit		-	53,872	56,581	110,453
Expenses		(1,642,515)	(89,402)	(333,678)	(2,065,595)
Other income or expense		-	(175,403)	(191,786)	(367,189)
Gain on disposal of discontinued components			-	215,223	215,223
Net loss	\$	(1,642,515)	\$ (210,933)	\$ (253,660)	\$ (2,107,108)

Year ended January 31, 2010 (Restated)						
		China				
		Canada	Reforestation	Discontinued Operations	Total	
Sales	\$	-	\$ 147,036	\$ 278,353	\$	425,389
Cost of sales		-	(282,647)	(310,715)		(593,362)
Gross profit		-	(135,611)	(32,362)		(167,973)
Expenses		(780,531)	(116,868)	(500,360)		(1,397,759)
Other income or expense		-	(267,579)	(330,124)		(597,703)
Net loss	\$	(780,531)	\$ (520,058)	\$ (862,846)	\$	(2,163,435)

# MAPLE LEAF REFORESTATION INC.

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### 14. EXPENSES

The consolidated expenses for the year ended January 31, 2011 are as follows:

	<b>Year ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
		<b>(Restated)</b>
Travel and promotion	\$ 164,025	\$ 55,378
Salaries and wages	173,802	217,268
Professional fees	203,741	162,123
Consulting fees	60,500	126,104
Stock based compensation	598,758	29,614
Office	36,947	50,619
Management salaries	90,000	90,000
Rental	38,002	37,526
Meals and entertainment	9,775	13,169
Filing and transfer agent	38,305	18,497
Telephone	6,085	5,653
Amortization	4,151	8,419
Shareholder information and promotion	51,528	17,535
Foreign exchange loss	5,420	-
Bad debt	173,194	-
Repair and maintenance	-	698
Interest and bank charges	77,684	64,796
Total	\$ 1,731,917	897,399

### 15. INCOME TAXES

The Company's subsidiaries and variable interest entities are subject to income tax laws in China, which the tax rate is 25%. The provision for income taxes differs from the amount computed by applying statutory Canadian federal and provincial income tax rates to the loss before tax provision due to the following:

	<b>2011</b>	<b>2010</b>
		<b>(Restated)</b>
Loss from continuing operations	\$ (1,853,488)	\$ (1,300,589)
Canadian basis statutory rate	28.50%	29.00%
Expected income tax recovery	(528,244)	(377,171)
Difference in foreign tax rates	9,511	18,212
Non deductible and taxable items	171,420	14,507
Valuation allowances	347,313	344,452
	\$ -	\$ -

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The tax effect of each type of item that give rise to the Company's future income tax assets and liabilities has been determined and is set out in the table below. The Company has recorded valuation allowances against the value of the potential tax assets as the likelihood of realization is less likely to occur.

	2011	2010
		(Restated)
Non capital loss carry forward	\$ 1,519,107	\$ 1,683,930
Net capital loss carry forward	163,074	-
Share issuance costs	59,918	66,976
Book value of property, plant, and equipment and other assets in excess of tax amount	128,563	(91,624)
Valuation allowance	(1,870,662)	(1,659,282)
Future income tax asset	\$ -	\$ -

As at January 31, 2011, the Company has accumulated non-capital losses of \$4,705,111 and \$3,117,136 available for Canadian and Chinese income tax purposes to reduce taxable income of future years. A summary of expiring date for the non-capital losses is as follows:

Expiring Date	Canada	China
Non-capital losses		
2011	\$ 501,825	\$ 129,162
2012	337,073	339,815
2013	-	784,787
2014	-	990,732
2015	-	599,212
2016	-	273,428
2026	450,293	
2027	364,099	
2028	507,387	
2029	785,585	
2030	731,579	
2031	1,027,270	
	<u>\$ 4,705,111</u>	<u>\$ 3,117,136</u>

As at January 31, 2011, the Company has capital loss of \$1,230,750 available for Canadian income tax purpose to reduce taxable capital gain of future year which can be carried over to future indefinitely.

# MAPLE LEAF REFORESTATION INC.

## Notes to the Consolidated Financial Statements

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### 16. COMMITMENTS

Commitments, not disclosed elsewhere in these financial statements, are as follows:

- 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 \$144,115 (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
2012	\$ 12,136
2013	12,136
2014	12,136
2015	12,136
2016	3,034
Total	\$ 51,578

- 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 are as follows:

Year	Annual Payments
2012	\$ 90,751
2013	92,554
2014	54,691
Total	\$ 237,996

- d) The Company is committed to pay a management fee to its current President & 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.
- e) Maple Leaf 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.

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*(Expressed in Canadian dollars, unless otherwise stated)*

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### 17. SUBSEQUENT EVENTS

Subsequent to January 31, 2011, the Company entered into a lease agreement with the government of Liang Cheng County, Inner Mongolia, China to lease an 110,000 square foot greenhouse, including 17 acres of adjacent useable land, for 10 years, for annual lease payment of approximately \$45,000 (RMB¥ 300,000) to expand the greenhouse operation in Inner Mongolia, China.

Subsequent to January 31, 2011, 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 \$50,516. Management of the Company had determined that the former joint venture partner's claims have no merit.

Also see Notes 7, 9(b), 9(c) and 9(d).

### 18. RESTATEMENTS FOR THE YEAR ENDED JANUARY 31, 2010

The Company has restated its consolidated financial statements as at and for the year ended January 31, 2010 as follows:

#### a) Deferred charges and other assets

Land lease payments of \$43,562 for the term of 50 years were previously expensed for and prior to fiscal year 2011 have been restated for the year ended January 31, 2010. The impact of the amount restated was to increase deferred charges and other assets by \$43,562, decrease cost of sales by \$5,118, decrease accumulated other comprehensive loss by \$6,439 and decrease deficit by \$44,883.

#### b) Convertible debentures

Convertible debentures and related conversion of debentures into common shares in fiscal year 2010 were incorrectly accounted for as follows:

- an unpaid commission of \$3,850 related to the issuance of convertible debentures was not recorded and taken into account in allocating the net proceeds to the convertible debentures and the related equity component.
- the paid commission of \$7,000 was mistakenly included in the share issuance cost instead of netting the proceeds of convertible debentures.
- the net proceeds from convertible debentures were incorrectly allocated to the convertible debentures and related equity component by \$15,944.
- the interest expenses for the convertible debentures were incorrectly calculated for the fiscal year 2010 by \$11,293.
- the related interest payable in connection with the convertible debentures was not recorded for the fiscal year 2010 by \$29,359.
- the amounts transferred to share capital upon the conversion of certain convertible

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debentures were incorrectly accounted for by \$7,856.

- the reclassification of contributed surplus to share capital upon the conversion of convertible debentures was incorrectly accounted for by \$161.
- proceeds of convertible debentures were incorrectly reflected on the cash provided in financing activities by \$84,669.

The impact of the amounts restated for the above noted errors was to increase accounts payable and accrued liability by \$3,850, increase interest payable by \$29,359, decrease convertible debentures by \$9,978, increase share capital by \$26,633 and increase expenses by \$11,293.

### c) Cash flows

The Company incorrectly calculated the cash flows for the year ended January 31, 2010. The impact of the amounts restated along with the above noted errors was to increase the cash used in operating activities by \$280,665, decrease cash used in investing activities by \$46,870, increase cash provided by financing activities by \$355,085 and decrease the effect of exchange rate changes on cash and cash equivalents by \$121,290.

The following table summarized the restatements for the year ended January 31, 2010.

<b>Balance Sheet January 31, 2010</b>	<b>Previously reported</b>	<b>Adjustment</b>	<b>Restated</b>
Deferred charges and other assets	247,230	43,562	290,792
Total assets	3,137,253	43,562	3,180,815
Accounts payable and accrued liability	535,787	3,850	539,637
Interest payable	-	29,359	29,359
Convertible debentures	448,331	(9,978)	438,353
Share capital	6,845,867	14,695	6,860,562
Contributed surplus	3,639,278	(26,633)	3,612,645
AOCI	662,072	(6,439)	655,633
Deficit	(8,995,082)	38,708	(8,956,374)
Total liabilities and shareholders equity	3,137,253	43,562	3,180,815
<b>Statements of Loss and Comprehensive Loss for year ended January 31, 2010</b>			
Cost of sales *	(287,765)	5,118	(282,647)
Expenses *	(886,106)	(11,293)	(897,399)
Net loss	(2,157,260)	(6,175)	(2,163,435)
Comprehensive loss	(2,086,570)	(6,457)	(2,093,027)
<b>Statements of Cash Flow for year ended January 31, 2010</b>			
Cash used in operating activities	(754,717)	(280,665)	(1,035,382)
Cash used in investing activities	(388,304)	46,870	(341,434)
Cash provided in financing activities	683,230	355,085	1,038,315
Effect of exchange rate changes on cash and cash equivalents	107,100	(121,290)	(14,190)

\* Reflected reclassification for discontinued operations.