Leading Brands, Inc.
Consolidated Financial Statements
February 28, 2010 and 2009
(Expressed in Canadian Dollars)

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Independent Auditors' Report

To the Shareholders of
Leading Brands, Inc.

We have audited the Consolidated Balance Sheets of Leading Brands, Inc. as at February 28, 2010 and 2009 and the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss), Cash Flows and Changes in Shareholders' Equity for each of the years in the three-year period ended February 28, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2010 and 2009 and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 2010 in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, Canada
May 18, 2010

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Comments by Auditors for U.S. Readers on Canada-United States Reporting Differences

The reporting standards of the Public Company Accounting Oversight Board (United States) for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by changes in an accounting policy, such as those described in the Company's Change in Reporting Currency accounting policy and a restatement, such as described in the following paragraph, that have a material effect on the consolidated financial statements. Although we conducted our audit in accordance with both Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), our report to the shareholders on the Consolidated Financial Statements dated May 18, 2010 is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditors' report when these are adequately disclosed in the financial statements.

The financial statements as of February 28, 2009 have been restated to reflect a write down of goodwill as described in Note 20.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, Canada
May 18, 2010

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Leading Brands, Inc.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)

As at February 28		2010		2009 (Restated - Note 20)
Assets				
Current				
Cash	$	**1,899,386**	$	699,931
Accounts receivable (Note 16(a))		**1,130,989**		1,478,433
Inventory (Note 1)		**1,788,727**		3,096,403
Prepaid expenses and deposits (Note 5)		**129,979**		177,638
		4,949,081		5,452,405
Property, plant and equipment (Note 2)		**9,216,196**		9,615,327
Trademarks and rights		**108,960**		108,960
Future income taxes (Note 13)		**3,488,609**		4,223,742
Total Assets	$	**17,762,846**	$	19,400,434
Liabilities and Shareholders' Equity				
Liabilities				
Current				
Bank indebtedness (Note 6)	$	**-**	$	1,512,915
Accounts payable and accrued liabilities		**2,204,264**		2,348,884
Current portion of long-term debt (Note 7)		**1,319,524**		1,300,981
		3,523,788		5,162,780
Long-term debt (Note 7)		**2,596,069**		3,808,986
Lease Inducement (Note 3)		**75,611**		101,171
		6,195,468		9,072,937
Shareholders' Equity				
Share Capital				
Authorized (Note 8(a))				
500,000,000 common shares without par value				
20,000,000 preferred shares without par value				
Issued				
3,923,275 common shares (2009 – 3,991,625)		**44,508,673**		45,283,762
Contributed surplus		**8,257,899**		7,420,785
Accumulated other comprehensive income - currency translation adjustment		**577,916**		577,916
Deficit (Note 20)		**(41,777,110)**		(42,954,966)
		11,567,378		10,327,497
Total Liabilities and Shareholders' Equity	$	**17,762,846**	$	19,400,434

Approved on behalf of the Board:

"Ralph D. McRae" Director

Ralph D. McRae

"Darryl R. Eddy" Director

Darryl R. Eddy

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Leading Brands, Inc.
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in Canadian Dollars)

For the year ended	Feb. 28, 2010	Feb. 28, 2009 (Restated - Note 20)	Feb. 29, 2008
Gross Sales	**$ 22,172,673**	$ 32,497,912	$ 36,866,555
Less: Discounts, rebates and slotting fees	**(1,646,440)**	(4,302,262)	(4,288,385)
Net Sales	**20,526,233**	28,195,650	32,578,170
Expenses (income)			
Cost of sales	**11,317,750**	19,071,688	24,446,540
Selling, general and administrative	**6,354,825**	9,892,150	13,830,530
Amortization of property, plant and equipment and other	**728,993**	767,798	734,880
Interest on long-term debt	**221,795**	327,148	375,427
Interest on current debt	**7,762**	137,421	201,925
Loss (gain) on contract settlement (Note 12)	**-**	308,280	(1,389,263)
Foreign exchange gain	**(21,330)**	-	-
Interest income	**(5,066)**	(33,545)	(96,127)
Write down of goodwill (Notes 4 & 20)	**-**	3,353,543	-
Loss (gain) on sale of assets	**8,515**	(250,880)	101,486
	18,613,244	33,573,603	38,205,398
Income (loss) before income taxes	**1,912,989**	(5,377,953)	(5,627,228)
Income taxes expense (Note 13)	**735,133**	289,285	40,944
Net income (loss) for the year	**1,177,856**	(5,667,238)	(5,668,172)
Foreign exchange translation adjustment	**-**	(15,359)	266,591
Comprehensive income (loss)	**$ 1,177,856**	$ (5,682,597)	$ (5,401,581)
Earnings (loss) per share			
Basic and diluted	**$ 0.30**	$ (1.42)	$ (1.54)
Weighted average common shares outstanding			
Basic and diluted (Note 8(h))	3,980,202	3,991,625	3,682,599

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Leading Brands, Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

For the year ended	Feb. 28, 2010	Feb. 28, 2009	Feb. 29, 2008
Cash provided by (used in)			
Operating activities			
Net income (loss) for the year (Note 20)	**$ 1,177,856**	$ (5,667,238)	$ (5,668,172)
Items not involving cash			
Amortization of property, plant and equipment and other	**728,993**	767,798	734,880
Amortization of leasehold inducement (Note 3)	**(25,560)**	(13,845)	-
(Gain) loss on sale of assets	**8,515**	(250,880)	101,486
Impairment write down goodwill (Notes 4 &,20)	**-**	3,353,543	-
Stock based compensation (Note 9)	**249,442**	306,773	278,175
Future income taxes (Note 13)	**735,133**	287,887	41,938
Changes in non-cash operating working capital items (Note 14)	**1,558,159**	1,008,044	660,951
	4,432,538	(207,918)	(3,850,742)
Investing activities			
Purchase of property, plant and equipment	**(349,068)**	(780,957)	(2,599,255)
Proceeds on sale of assets	**10,519**	484,263	438,943
	(338,549)	(296,694)	(2,160,312)
Financing activities			
Increase (decrease) in bank indebtedness	**(1,512,915)**	(571,799)	(1,841,978)
Issuance (repurchase) of common shares	**(187,417)**	-	9,670,674
Proceeds from issuance of long-term debt	**-**	72,478	1,584,937
Repayment of long-term debt	**(1,194,374)**	(1,161,172)	(792,329)
	(2,894,706)	(1,660,493)	8,621,304
Increase (decrease) in cash and cash equivalents	**1,199,283**	(2,165,105)	2,610,250
Effect of exchange rates on cash	**172**	(21,773)	276,559
Cash and cash equivalents, beginning of year	**699,931**	2,886,809	-
Cash and cash equivalents, end of year	**$ 1,899,386**	$ 699,931	$ 2,886,809
Supplementary disclosure of cash flow Information			
Cash paid(received) during the year			
Income tax payments (recovery), net	**$ -**	$ 1,398	$ (994)
Interest received	**$ (5,065)**	$ (33,868)	$ (90,800)
Interest paid	**$ 233,668**	$ 474,441	$ 579,672

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Leading Brands, Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

For the years ended February 28, 2010, February 28, 2009, and February 29, 2008

	Shares		Amount (Restated - Note 20)
Common Stock			
Balance at March 1, 2007	3,280,169	$	39,709,542
Shares issued upon exercise of stock options	51,456		318,696
Shares issued for private placement	660,000		5,255,524
Balance at February 29, 2008 and February 28, 2009	3,991,625		45,283,762
Shares repurchased (Note 8 (b))	(68,350)		(775,089)
Balance at February 28, 2010	3,923,275	$	44,508,673
Contributed Surplus			
Balance at March 1, 2007		$	2,739,383
Stock based compensation on issued stock options (Note 9)			278,175
Contributed surplus on issue of warrants (Note 8)			4,096,454
Balance at February 29, 2008			7,114,012
Stock based compensation on issued stock options (Note 9)			306,773
Balance at February 28, 2009			7,420,785
Shares repurchased (Note 8 (b))			587,672
Stock based compensation on issued stock options (Note 9)			249,442
Balance at February 28, 2010		$	8,257,899
Deficit			
Balance at March 1, 2007		$	(31,619,556)
Net loss			(5,668,172)
Balance at February 29, 2008			(37,287,728)
Net loss (Note 20)			(5,667,238)
Balance at February 28, 2009 (Note 20)			(42,954,966)
Net income			1,177,856
Balance at February 28, 2010		$	(41,777,110)
Accumulated other comprehensive income			
Balance at March 1, 2007		$	326,684
Foreign exchange translation adjustment			266,591
Balance at February 29, 2008			593,275
Foreign exchange translation adjustment			(15,359)
Balance at February 28, 2009 and 2010		$	577,916

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which, in the case of the Company, differ in certain respects from generally accepted accounting principles in the United States ("US GAAP") as explained in Note 19. Details of the significant accounting policies are as follows:

Nature of Business

Leading Brands and its subsidiaries are involved in the development, production, marketing and distribution of the Company's branded and licensed beverage brands.

The Company sells branded and licensed beverage products through its Integrated Distribution System (IDS) of distributors, wholesalers, and grocery chains. Its principal product lines include juices and waters. The bottling plant provides bottling services for the Company's own products and for an external customer. The Company also uses the services of third party bottlers as required to meet its objectives.

Basis of Presentation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated. Certain comparative figures have been reclassified to conform to the current year's presentation.

Change in Reporting Currency

Effective for the year ended February 28, 2009, the Company changed its reporting currency from United States dollars ("U.S.") to Canadian dollars ("Cdn$"). The Company believes that financial statements presented in Canadian dollars delivers more meaningful and relevant financial information to the shareholders as the majority of the Company's transactions are denominated in Canadian dollars. For the year ended February 29, 2008 and for all prior periods, the Company reported its financial statements in U.S. dollars. The comparative figures disclosed in these financial statements have been restated to the Canadian dollar as if the Canadian dollar had been used as the reporting currency for all periods.

In accordance with Emerging Issue Committee Abstract 130, *Translation Method When the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency*, the financial statements for all years presented are translated into the reporting currency using the current rate method. Under this method, the income statement and the cash flow statement items for each year are translated into the reporting currency using the rates in effect at the date of the transactions, and assets and liabilities are translated using the exchange rate at the end of that year.

Change in Reporting Currency - continued

All resulting exchange differences are reported as a separate component of other comprehensive income, which is included as part of shareholders' equity. Results in the consolidated statements of income (loss) and comprehensive income (loss) of prior years were translated using the weighted average exchange rate in effect for the applicable periods, and the results of prior year consolidated balance sheets were translated using applicable period end exchange rate. The effect of the change in reporting currency substantially eliminated the translation currency adjustment previously created upon the conversion to a U.S. dollar reporting currency.

Accounts Receivable

Accounts receivable invoices are recorded when the products are delivered and title transfers to customers or when bottling services are performed and collection of related receivables is reasonably assured. The calculations for an allowance for uncollectible amounts require management judgment regarding the ability to collect the amounts due.

Inventory

Raw materials and finished goods purchased for resale are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Finished goods, produced from manufacturing operations, are valued at the lower of standard cost which approximates average cost of raw materials, direct labour and overhead and net realizable value.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are amortized using the declining-balance method at annual rates as follows:

Plant and equipment	7% to 20%
Buildings	5%
Automotive equipment	20%
Land improvements	8%
Furniture and fixtures and computer hardware and software	20%

Leasehold improvements are amortized over the lesser of their expected life or the lease term.

Management periodically performs a review of undiscounted future operating cash flows to assess the recoverability of the property, plant and equipment. Property, plant and equipment are written down when their carrying value is not recoverable.

Revenue Recognition

Revenue on sales of products is recognized when the products are delivered and title transfers to customers. Revenues from the provision of manufacturing, packaging or other services are recognized when the services are performed and collection of related receivables is reasonably assured. The Company records shipping and handling revenue as a component of sales revenue. Incentives offered to customers including rebates, cash discounts, and volume discounts are recorded as a reduction of net sales when the sales are recognized.

Slotting fees paid to various customers are recorded in prepaid expenses and amortized into sales discounts over 12 months from the date of the first sale to those customers.

Foreign Currency Translation and Transactions

The functional currency of the Company is the Canadian dollar. Transactions denominated in US dollars have been translated into Canadian dollars at the approximate rate of exchange prevailing at the time of the transaction. Monetary assets and liabilities have been translated into Canadian dollars at the year end exchange rate. All such exchange gains and losses are included directly in earnings.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may materially differ from those estimates. The financial statement accounts which required management to make estimates and assumptions in determining carrying value include accounts receivable, inventory, property, plant and equipment, goodwill, future income taxes, trademarks and rights, and stock-based compensation.

Stock-Based Compensation

The Company has adopted the recommendations of CICA Handbook Section 3870, “Stock-Based Compensation and Other-Stock-Based Payments”. Section 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

Compensation costs are charged to the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

Goodwill and Other Intangible Assets

For the year ended February 28, 2009, following a detailed review of the fair value calculations, the Company has decided to write off its goodwill asset as its market capitalization as at February 28, 2009 no longer supported it. As a result, the goodwill asset was written down to zero for the year ended February 28, 2009.

Trademarks and rights including the acquisition of domain names which are expected to provide future benefits are recorded at cost and amortized over their expected useful life.

Income Taxes

Future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates by tax jurisdiction at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. Significant management judgement is required in determining the provision for income taxes, the future income tax assets and liabilities and any valuation allowance recorded against the net future income tax assets. Management evaluates all available evidence, such as recent and expected future operating results by tax jurisdiction, and current and enacted tax legislation and other temporary differences between book and tax accounting to determine whether it is more likely than not that some portion or all of the future income tax assets will not be realized. Although the Company has tax loss carry-forwards and other future income tax assets, management has determined certain of these future tax assets do not meet the more likely than not criteria, and accordingly, these future income tax asset amounts have been partially offset by a valuation allowance (Note 13).

Leases

Leases are classified as either capital or operating in nature. Capital leases are those which substantially transfer the benefits and risks of ownership to the leasee. Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of the lease payment is charged to expense.

Comprehensive Income

Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available-for-sale investments, gains and losses on certain derivative financial instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized.

Comprehensive Income - continued

Information pertaining to comprehensive income items is presented in the Company's Consolidated Statement of Income (Loss) and Comprehensive Income (Loss).

Financial Instruments

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

- Held to maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and transaction costs are amortized into net earnings, using the effective interest method. As at February 28, 2010, the Company has classified its accounts receivable as loans and receivables and its accounts payable and accrued liabilities, bank indebtedness and long term debt as other financial liabilities. The fair value of these financial instruments approximates their carrying value.

- Available-for-sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized, at which time they will be recorded in net earnings.

- Held-for-trading financial instruments are measured at fair value. All gains and losses resulting from changes in their fair value are included in net earnings in the period in which they arise. As at February 28, 2010, the Company has classified its cash as held-for-trading. The fair value of these financial instruments approximates their carrying value.

All derivative financial instruments are classified as held-for-trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses resulting from changes in their fair value are included in net earnings in the period in which they arise.

The Company has chosen to include transaction costs in the carrying value of financial liabilities that have been designated as other than held for trading in accordance with S3855.57(a).

Adoption of New Canadian accounting standards

Amendments to Section 3862, Financial Instruments – Disclosures

In July, 2009, the CICA approved amendments to section 3862, *Financial Instruments – Disclosures*. The amendments require additional fair value disclosure for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making fair value assessments, as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company adopted the requirements of amendments to Section 3862 in its February 28, 2010 consolidated financial statements (note 16).

HB 1000 – Financial Statement Concepts

Effective March 1, 2009 the Company adopted the new CICA Handbook Section 1000, “Financial Statement Concepts”, which has been amended to focus on the capitalization of costs that meet the definition of an asset and de-emphasizes the matching principle. The adoption of this standard did not have any impact on the Company’s consolidated financial statements.

International Financial Reporting Standards ("IFRS") In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after March 1, 2011. The transition date of March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. Since the Company trades exclusively in the US, the Company has decided to convert to US GAAP as of the above transition date.

1. Inventory

		2010		2009
Finished goods	**$**	**1,142,473**	$	1,677,621
Raw materials		**646,254**		1,418,782
	$	**1,788,727**	$	3,096,403

The ending balance above includes a total inventory obsolescence provision of $118,652 as at February 28, 2010 (2009 - $342,803).

2. Property, Plant and Equipment

	2010			2009
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Plant and equipment	**$ 13,951,042**	**$ 6,626,263**	**$ 7,324,779**	$ 7,534,424
Buildings	**1,931,944**	**1,080,562**	**851,382**	896,191
Automotive equipment	**40,288**	**36,393**	**3,895**	4,008
Land	**433,613**	**-**	**433,613**	433,613
Land improvements	**1,861**	**1,046**	**815**	885
Leasehold improvements	**229,482**	**137,182**	**92,300**	115,374
Furniture and fixtures	**607,251**	**524,923**	**82,328**	105,020
Computer hardware and software	**2,569,801**	**2,142,717**	**427,084**	525,812
	$ 19,765,282	**$ 10,549,086**	**$ 9,216,196**	$ 9,615,327

Property plant and equipment includes equipment acquired under capital leases with an initial cost of $2,687,820 (2009 – $2,687,820). Accumulated amortization of assets acquired under capital leases is $468,025 (2009 – $300,943).

3. Lease Inducement

In the 2009 fiscal year, the Company received a lease inducement of $115,016 worth of leasehold improvements as an incentive to enter into a 5-year lease term for the Vancouver offices. This amount is being amortized over the remainder of the lease term. The amortization for the fiscal year ended February 28, 2010 was $25,560 (2009 - $13,845) with a corresponding credit to rental expense under the category of selling, general and administrative expenses.

4. Goodwill

	2010	2009 (Restated - Note 20)
Goodwill	**$ -**	$ 4,396,000
Less accumulated amortization	**-**	(1,042,457)
Impairment write down (Note 20)	**-**	(3,353,543)
	$ -	$ -

Since the fiscal year ended February 28, 2002, goodwill is not subject to amortization but is subject to an annual assessment for impairment by applying a fair value test. Any impairment in the value of goodwill would be charged to income. For the year ended February 28, 2009, following a detailed review of the fair value calculations, the Company has decided to write off its goodwill asset as its market capitalization as at February 28, 2009 no longer supported it. As a result, the goodwill asset was written down to zero for the year ended February 28, 2009.

5. Prepaid Expenses and Deposits

	2010	2009
Slotting fees	**$ 3,167**	$ 437
Insurance premiums	**56,531**	65,541
Rental deposits and other	**70,281**	111,660
	$ 129,979	$ 177,638

6. Bank Indebtedness

	2010	2009
Bank indebtedness	**$ -**	$ 1,512,915

The Company has a demand revolving operating bank loan with a credit limit of $3,500,000 (2009 - $5,500,000) subject to the availability of eligible collateral. Interest is charged on the drawn-down amounts at the bank prime rate plus 1.75% - 2.25% (2009 - 1.75 - 2.25%). The bank prime rate at February 28, 2010 was 2.25% (2009 – 3.0%). The operating loan is collateralized by a charge on all assets of the Company and an assignment of all risk insurance on land, buildings, equipment and inventory owned by the Company.

Bank indebtedness includes the demand revolving operating bank loan of $Nil (2009 - $1,118,594) and un-presented cheques of $Nil (2009 - $396,493) and is net of cash of $Nil (2009 - $2,172).

The agreement with respect to the bank indebtedness as well as the bank loan (Note 7(a)) contains three restrictive covenants. They are a tangible net worth covenant, a current ratio covenant and a capital acquisition covenant. The Company was in compliance with all covenants at February 28, 2010.

7. Long-term Debt

			2010		2009
a)	Bank loan, principal and interest repayable at $74,573 per month, collateralized similar to the operating bank loan, as described in Note 6, with interest at a rate of bank prime plus 1.75%, renewable on February 1, 2011. Portions of this loan amortize until June 2019 and April 2021.	**$**	**2,083,515**	$	2,881,666
b)	Capital lease, principal and interest repayable at $6,907 per month including interest at a five-year fixed rate of 6.53% per annum, collateralized by certain pieces of manufacturing equipment until October, 2011.		**221,420**		287,481
c)	Capital lease, principal and interest repayable at $8,601 per month including interest at a three-year fixed rate of 5.675% per annum, collateralized by certain pieces of manufacturing equipment until February, 2011.		**121,441**		214,867
d)	Capital lease, principal and interest repayable at $15,024 per month including interest at a seven-year fixed rate of 6.575% per annum, collateralized by certain pieces of manufacturing equipment until September, 2014.		**780,831**		905,298
e)	Capital lease, principal and interest repayable at $12,729 per month including interest at a seven-year fixed rate of 6.125% per annum, collateralized by certain pieces of manufacturing equipment until September, 2014.		**599,426**		711,695
f)	Other		**108,960**		108,960
			3,915,593		5,109,967
	Less: current portion		**1,319,524**		1,300,981
		$	**2,596,069**	$	3,808,986

Principal due over the remaining terms of the long-term debt is as follows:

2011	$	1,319,524
2012		538,601
2013		410,007
2014		433,944
2015		401,774
2016 and thereafter		811,743
	$	3,915,593

The agreement with respect to the bank loan (Note 7(a)) contains a demand feature whereby the bank can demand repayment at any time as well as three restrictive covenants (see Note 6). The bank has indicated that it does not expect repayment of the loan other than as scheduled, accordingly, the principal payments are classified in accordance with the bank loan repayment schedule.

8. Share Capital

a) Authorized share capital

	Number of Shares	
	2010	2009
Common shares without par value	**500,000,000**	500,000,000
Preferred shares without par value	**9,999,900**	9,999,900
Series “A” preferred shares	**1,000,000**	1,000,000
Series “B” preferred shares	**100**	100
Series “C” preferred shares	**1,000,000**	1,000,000
Series “D” preferred shares	**4,000,000**	4,000,000
Series “E” preferred shares	**4,000,000**	4,000,000
	20,000,000	20,000,000

There are no preferred shares outstanding as at February 28, 2010 and February 28, 2009.

b) On August 9, 2007, the Company issued 660,000 common shares and 330,000 common share purchase warrants for net proceeds of $9,342,959 (after deducting share issuance expenses of $1,121,617). Of this amount, $4,096,454 was allocated to the warrants issued and recorded in Contributed Surplus while the balance of $5,255,524 was allocated to common shares. The warrant value was calculated using the Black-Scholes option-pricing model using a risk free rate of 4.5%, a volatility factor of 77% and 66 months as the term of the warrants.

In the year ended February 28, 2010, the company repurchased 68,350 of its issued and outstanding shares in the amount of $187,417. Since the average common share price of common shares at the time of repurchase was $11.34, share capital has been reduced by $775,089 and contributed surplus has been increased by $587,672.

On February 2, 2010, the Company implemented a five-to-one share consolidation of the Company’s common stock. The outstanding common share, stock option and share purchase warrant numbers reported have been retroactively adjusted for the consolidation.

c) Stock Options

The Company occasionally grants stock options to its employees, officers, directors and consultants to purchase common shares of the Company. The options granted are exercisable at a price which is equal to or greater than the fair market value of the common shares at the date the options are granted. The options generally begin vesting after 7 months at 7/60th of the total grant and continue to vest at 1/60th per month for a total of 60 months. The options generally have a life of 10 years. The Company does not have a formal stock option plan.

8. Share Capital – continued

d) Stock Option Information

	Issued and Outstanding Options	Weighted Average Exercise Price (USD)
Outstanding at March 1, 2007	354,215	$ 7.15
Granted	92,000	11.15
Exercised	(51,455)	5.75
Forfeited	(86,927)	13.65
Expired	(5,633)	8.85
Outstanding at February 29, 2008	302,200	6.70
Granted	221,000	3.35
Forfeited	(68,500)	6.10
Expired	(36,534)	5.90
Outstanding at February 28, 2009	418,166	5.10
Granted	65,000	3.50
Forfeited	(42,666)	6.15
Expired	(4,700)	5.79
Outstanding at February 28, 2010	435,800	$ 4.74

The weighted average date-of-grant fair value of the options granted during 2010 was $3.24 US (2009 - $3.05 US; 2008 - $10.15 US) per share based on the Black-Scholes option pricing model using weighted average assumptions as described in Note 9.

8. Share Capital – continued

e) Options Outstanding and Exercisable

The following table summarizes the options outstanding and exercisable at February 28, 2010.

	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Exercise Price (USD)	Number of Options Exercisable
	144,000	8.33	$ 3.00	48,000
	100,000	0.01	$ 5.00	100,000
	65,000	9.58	$ 3.50	-
	46,633	4.42	$ 5.20	46,633
	40,000	7.92	$ 7.10	16,666
	20,000	8.17	$ 6.20	7,331
	10,000	7.58	$ 15.75	4,667
	4,833	4.92	$ 4.05	4,833
	2,000	6.33	$ 24.65	1,467
	1,767	5.92	$ 5.35	1,327
	1,567	6.25	$ 12.85	1,067
February 28, 2010	**435,800**			**231,991**
February 28, 2009	418,166			201,897
February 29, 2008	302,200			197,408

Subsequent to February 28, 2010, 100,000 options with an exercise price of $5.00 US expired unexercised.

8. Share Capital – continued

f) Share Purchase Warrants Information

	Number of Warrants	Weighted Average Exercise Price (USD)
Outstanding at March 1, 2007	-	$ -
Issued in connection with private placement	363,400	19.75
Outstanding at February 29, 2008, February 28, 2009 and 2010	363,400	$ 19.75

The Company issued 330,000 common share purchase warrants related to the private placement and 33,400 common share purchase warrants to the placement agent pursuant to the terms of an agreement related to the issuance of common shares on August 9, 2007. Each common share purchase warrant is exercisable for the purchase of one common share and all of the warrants expire on February 9, 2013. Subject to certain exclusions, the exercise price of the warrants is adjustable downwards to a minimum of $16.45 U.S. per share in the event that the Company issues new shares at a price lower than the exercise price.

g) Shareholder Protection Rights Plan

On August 26, 2003, a Shareholder Protection Rights Plan was adopted whereby one share purchase right is attached to each outstanding common share, exercisable only in the case of a specific event, such as the acquisition by an acquirer of 20% or more of the issued common shares of the Company, and at a predetermined calculated price.

At the Annual General Meeting on June 28, 2006 the Shareholder Protection Rights Plan was updated to reflect current industry standards and changes in legislation, and was extended for five years.

8. Share Capital – continued

h) Earnings (Loss) Per Common Share

The Company uses the “Treasury Stock Method” to calculate earnings (loss) per common share. Under this method basic earnings (loss) per share is based on the weighted average aggregate number of common and non-voting shares outstanding during each period. The diluted earnings per share assumes that the outstanding stock options and share purchase warrants had been exercised at the beginning of the period. On February 2, 2010, the company completed a share consolidation converting five shares of the Company’s stock into one new share of common stock. Previous year information has been adjusted to reflect this consolidation.

For the year ended February 28, 2010, February 28, 2009, and February 29, 2008, common equivalent shares (consisting of shares issuable on exercise of stock options and warrants) totaling 799,200, 781,566 and 665,600, respectively, were not included in the computation of diluted earnings per share because the effect was anti-dilutive.

9. Stock-Based Compensation

a) The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants:

	2010	2009	2008
Risk-free rate	**3.51%**	3.68% to 3.80%	3.82% to 4.64%
Dividend yield	**Nil%**	Nil%	Nil%
Volatility factor of the expected market price of the Company’s common shares	**108%**	100%	101%
Weighted average expected life of the options (months)	**120**	120	120

b) In connection with the vesting of certain employees, officers and directors stock options for the year ended February 28, 2010, the Company has recorded stock option compensation of $249,442 (2009 - $306,773; 2008 - $278,175) which was credited to contributed surplus and expensed in selling, general and administrative expenses in the year.

10. Commitments

a) The Company is committed to annual operating leases for premises and equipment. The minimum annual lease payments over the remaining terms of the leases are as follows:

2011	$	646,225
2012		603,168
2013		420,796
2014 and thereafter		-
Total future minimum lease payments	$	1,670,189

b) The Company has commitments with various suppliers to purchase certain volumes of materials. It is not anticipated that losses will be incurred on these contracts.

11. Contingencies

The Company is a party to various legal claims which have arisen in the normal course of business, none of which are expected to have a material adverse effect on the financial position or results of operations of the Company.

12. Loss/Gain on Contract Settlements

In the fiscal year ended February 28, 2009, the Company recorded a loss on contract settlement $308,280 (2008 - $Nil) from the early termination of a warehouse lease at a substantial net discount.

In the fiscal year ended February 29, 2008, the Company recorded income of $1,389,263 from the termination of a distribution agreement.

No such contract settlements occurred during the year ended February 28, 2010.

13. Income Taxes

	2010	2009	2008
Current	**$ -**	$ 1,398	$ (994)
Future	**735,133**	287,887	41,938
	$ 735,133	$ 289,285	$ 40,944

The difference in income tax expense (recovery) due to differences between the Canadian statutory federal income tax rate and the Company's effective income tax rate applied to loss before income taxes was as follows for each of the years in the three-year period ended February 28, 2010:

	2010	2009 (Restated – Note 20)	2008
Income tax expense (recovery) computed at basic Canadian statutory rates	**29.8%**	(30.8)%	(33.7)%
Foreign income (loss) taxes at other than Canadian statutory rates	**(0.5)%**	(3.8)%	0.0%
Effect of non-deductible amounts	**4.3%**	(7.0)%	1.1%
Recognized tax expenses (benefits)	**0.0%**	0.0%	0.3%
Foreign exchange revaluation impact	**18.0%**	0.0%	0.0%
Change in statutory rate	**(1.6)%**	14.5%	18.3%
Changes in valuation allowance	**(11.6)%**	32.5%	14.7%
	38.4%	5.4%	0.7%

The change in statutory rates represents rate changes enacted by the Canadian federal government through January 1, 2012.

The effects of each type of temporary difference that gives rise to the future income tax assets and liabilities are as follows:

	2010	2009
Operating and other losses carried forward	**$ 5,176,888**	$ 5,777,971
Property, plant and equipment	**1,935,002**	2,012,311
Trademark and deferred costs	**119,628**	339,203
Un-realized foreign exchange loss	**36,814**	36,800
Financing costs	**112,162**	168,243
Total future income tax assets	**7,380,494**	8,334,528
Valuation allowance	**(3,891,885)**	(4,110,786)
Net future income tax assets	**$ 3,488,609**	$ 4,223,742

The Company's future tax assets also include approximately $449,000 (2009 - $673,000) related to future deductions of share issue costs for tax purposes in excess of amounts deducted for financial reporting purposes. If and when the valuation allowance related to these amounts is reversed, the Company will recognize the benefit as an adjustment to share capital as opposed to income tax expense in the Consolidated Statements of Loss and Comprehensive Loss.

The Company has provided a valuation allowance against a portion of the future income tax assets. As at February 28, 2010, the Company and its subsidiaries have accumulated net operating losses in the amount of approximately $16 million which can be applied against future earnings of the subsidiaries. The net operating loss carry forward amounts commence to expire in 2026 through 2029.

14. Changes in Non-Cash Operating Working Capital Items

	2010	2009	2008
Non cash working capital related to operations:			
Accounts receivable	**$ 347,444**	$ 851,287	$ 1,648,742
Inventory	**1,307,676**	1,492,429	2,107,017
Prepaid expenses and deposits	**47,659**	222,701	552,275
Accounts payable and accrued liabilities	**(144,620)**	(1,558,373)	(3,647,083)
	$ 1,558,159	$ 1,008,044	$ 660,951

15. Related Party Transactions

Related party transactions not disclosed elsewhere are as follows:

		2010	2009	2008
i)	Incurred consulting fees with a company related by a director in common	**$ 84,000**	$ 84,000	$ 84,000
ii)	Incurred professional service fees with a company related by a director In common	**$ 479,600**	$ 510,400	$ 528,000
iii)	Incurred marketing consulting services with a company related by a director in Common	**$ 64,800**	$ 69,300	$ 59,625
iv)	Sold water to a company with a director in common	**$ -**	$ 14,280	$ 19,320
v)	Sold assets to a company with a director in common (Note 12)	**$ -**	$ 450,500	$ -
vi)	Incurred consulting fees with a company related by an officer in common	**$ 192,218**	$ 199,616	$ 203,219
vii)	Incurred services from a company related by a director in common	**$ 2,525**	$ 5,283	$ 17,730
viii)	Incurred brokerage and placement agent fees and expenses from a company related by a director in common, see Note 8(b)	**$ 4,929**	$ -	$ 760,366

The above-noted transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

16. Financial Risk Management

a) Credit Risk

The Company's credit risk is primarily attributable to its accounts receivable. The risk arises from customers' potential inability to meet their obligations as agreed. The accounts receivable are presented on the balance sheet net of the provision for bad debts, which is estimated by the Company's management based on past experience and its assessment of current economic conditions.

As at February 28, 2010, the Company is exposed to credit risk through the following assets:

	February 28, 2010	February 28, 2009
Trade Receivables	$ 1,136,007	$ 1,558,904
Other Receivables	65,231	75,654
Allowance for Doubtful Accounts	(70,249)	(156,125)
	$ 1,130,989	$ 1,478,433

The Company's customers consist mainly of beverage distributors and wholesale and retail grocery suppliers and distributors principally located in North America. During the year ended February 28, 2010, the Company's ten largest customers comprised approximately 84% (2009 - 82%; 2008 – 64%) and no one customer comprised more than 67% (2009 - 47%; 2008 – 33%). In addition, to cover credit risk, the Company performs ongoing credit evaluations of its customers' financial condition and applies rigorous procedures to assess the credit worthiness of new clients. It sets a specific credit limit per client and regularly reviews this limit.

Of the trade receivables outstanding at February 28, 2010, 94.2% were not yet due, 5.5% were between 30 and 60 days overdue but are not impaired and 0.3% are over 90 days but fully provided for in the allowance for doubtful accounts.

b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 17. The Company maintains detailed forecasts as well as long-term operating and strategic plans. Managing liquidity requires monitoring of projected cash inflows and outflows using forecasts of the Company's financial position to ensure adequate and efficient use of cash resources. The appropriate liquidity level is established based on historical volatility and seasonal requirements, as well as planned investments and the debt maturity requirements.

The Company has credit facilities that are renewed annually in order to make sure that sufficient funds are available to meet its financial needs. There is a risk that these credit facilities will not be renewed by the existing lender and that the Company would then be required to find an alternative source of financing.

Accounts payable and accrued liabilities are generally due within 30 days.

The agreement with respect to the bank indebtedness contains three restrictive covenants. They are a tangible net worth covenant, a current ratio covenant and a capital acquisition covenant. The Company was in compliance with all covenants at February 28, 2010.

16. Financial Risk Management – continued

c) Market Risk

i) Currency risk –The Company concludes sales in U.S. dollars to customers in the US and other foreign countries. The Company also purchases raw materials as well as equipment in U.S. dollars. Consequently, it is exposed to the risk of exchange rate fluctuations with respect to the receivable and payable balances denominated in US dollars. The Company has not hedged its exposure to currency fluctuations.

At February 28, 2010, the Company's cash balances included $84,000 denominated in U.S. dollars (2009 - $Nil), accounts receivable balances included $17,000 denominated in U.S. dollars (2009 - $352,000), the Company's accounts payable and accrued liabilities balance included $308,000 denominated in U.S. dollars (2009 - $226,000) and the Company's bank indebtedness balance included $Nil denominated in U.S. dollars (2009 - $222,000).

As at February 28, 2010, all other factors being equal, a 5% U.S. dollar rise per Canadian dollar would have an unfavourable impact of approximately $127,000 on net earnings for the year. A 5% US/Canadian dollar decrease would have a positive impact of similar magnitude.

ii) Interest rate risk – The Company is exposed to interest rate risk arising from its variable rate interest-bearing financial obligations which are the Company's operating line of credit and the long-term loan with the Company's primary lender. A negative impact on cash flows could occur if there was an increase in prime rates. A decrease in these same rates would have a positive impact of similar magnitude.

The Company maintains a combination of fixed rate and variable rate debts. Fixed rate debt is used mainly in relation to the business's long-term obligations arising from acquisitions of long-term assets. Bank indebtedness may be used to finance the Company's working capital and fluctuates according to seasonal factors specific to the Company. As at February 28, 2010 the Company has long term debt with its primary lender and bank indebtedness relating to the Company's operating line of credit at variable interest rates which are the Company's main source of interest rate risk. The Company also has certain long-term capital leases at fixed rates.

As at February 28, 2010, the Company had short and long-term debt with variable interest rates in the amount of $2,084,000. A 1.0% increase in the interest rate on average borrowing levels for the fiscal year ending February 28, 2010 would have an unfavourable impact of approximately $25,000 on net earnings for the year. A 1.0% decrease in the interest rate would have a positive impact of similar magnitude.

d) Fair Value of Financial Instruments

The Company's financial instruments measured at fair value on the balance sheet are limited to cash which are classified as level 1. The Company does not have any level 2 or level 3 financial instruments.

17. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide opportunities for growth to shareholders and benefits for other stakeholders, and to maintain financial flexibility in, or to take advantage of, opportunities as they arise.

In the management of capital, the Company includes shareholder's equity, lease financing and bank financing in the definition of capital. The Company manages its capital structure and can adjust it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, or issue new debt to replace existing debt with different characteristics.

The Company may use its operating line of credit during the year to finance cash flows related to seasonal changes in non-cash working capital items, and funds large capital expenditure projects through long-term debt. The Company has a demand revolving operating bank loan with a credit limit of $3,500,000 subject to the availability of eligible collateral. The actual limit based on eligible collateral at February 28, 2010 was $1.44 million. The agreement with respect to the bank indebtedness contains three financial covenants. They are a tangible net worth covenant, a current ratio covenant and a capital acquisition covenant. The Company was in compliance with all covenants at February 28, 2010.

18. Segmented Information

The Company operates in one industry segment being the production and distribution of beverages. The Company's principal operations are comprised of an integrated bottling and distribution system for beverages and waters. Substantially, all of the Company's operations, assets and employees are located in Canada and net revenue from export sales during all the years reported are less than 10%.

19. Differences Between Canadian and United States Generally Accepted Accounting Principles

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) which, in the case of the Company, differs in certain respects from US GAAP.

Material differences between Canadian and US GAAP are summarized below:

a) Adjustments to Consolidated Financial Statements

Adjustments to Consolidated Statements of Loss

	2010	2009 (Restated - Note 20)	2008
Net income (loss) for the year, Canadian GAAP	**$ 1,177,856**	$ (5,667,238)	$ (5,668,172)
Amortization of deferred costs (i)	**-**	-	6,563
Net income (loss) for the year, US GAAP	**$ 1,177,856**	$ (5,667,238)	$ (5,661,609)
Basic and diluted income (loss) per share, US GAAP	**$ 0.30**	$ (1.42)	$ (1.54)

Comprehensive Income (Loss)

	2010	2009 (Restated - Note 20)	2008
Net income (loss), US GAAP	**$ 1,177,856**	$ (5,667,238)	$ (5,661,609)
Other comprehensive income:			
Foreign currency translation Adjustments	**-**	(15,359)	266,591
Comprehensive income (loss), US GAAP	**$ 1,177,856**	$ (5,682,597)	$ (5,395,018)

19. Differences Between Canadian and United States Generally Accepted Accounting Principles – continued

a) Adjustments to Consolidated Financial Statements – continued

Adjustments to Assets, Liabilities and Shareholders' Equity

	2010	2009 (Restated - Note 20)
Total assets, Canadian GAAP	**$ 17,762,846**	$ 19,400,434
Write-off website development costs (ii)	**(108,960)**	(108,960)
Total assets, US GAAP	**$ 17,653,886**	$ 19,291,474
Total liabilities, Canadian and US GAAP	**$ 6,195,468**	$ 9,072,937
Total shareholders' equity, Canadian GAAP	**11,567,378**	10,327,497
Change in deficit relating to:		
Application of ACS 350-50 (ii)	**(108,960)**	(108,960)
Total shareholders' equity, US GAAP	**11,458,418**	10,218,537
Total liabilities and shareholders' equity, US GAAP	**$ 17,653,886**	$ 19,291,474

i) Product Launch and Deferred Costs

Under US GAAP, according to FASB ACS 720-15, *Start-Up Costs*, costs incurred prior to commercial production of a product, costs incurred to establish business in a new territory and costs incurred to initiate a new process in an existing facility are to be expensed as incurred. Under Canadian GAAP, these costs may be capitalized to the extent that they meet specified criteria for recoverability.

ii) Under FASB ACS 350-50 ("ACS 350-50"), *Website Development Cost* in the U.S., certain general design and indirect costs related to website development are required to be expensed rather than capitalized. In Canada there is no similar restriction and certain of these costs were capitalized.

19. Differences Between Canadian and United States Generally Accepted Accounting Principles – continued

a) Adjustments to Consolidated Financial Statements – continued

iii) New Accounting Pronouncements – Recently Adopted

ASC 805. FASB Statement No. 141(R) *Business Combination*s. This statement was incorporated into ASC 805, *Business Combinations*, under the new FASB codification. ASC 805 requires that upon initially obtaining control, an acquirer should recognize 100% of the fair values of acquired assets, including goodwill and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration and transaction costs will be expensed as incurred. This statement also modifies the recognition for pre-acquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. This statement amends ASC 740-10, *Income Taxes* (“ASC 740”) to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. ASC 805 is effective for fiscal years beginning after December 15, 2008. The adoption of this standard did not have any impact on the Company’s financial position or results from operations.

ASC 810. The FASB issued FASB Statement No. 160, *Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51,* which is effective for fiscal years beginning after December 15, 2008. Early adoption is prohibited. SFAS No. 160 was incorporated into ASC 810, *Consolidation* (“ASC 810”) and requires companies to present minority interest separately within the equity section of the balance sheet. The adoption of this standard did not have any impact on the Company’s financial position or results from operations.

ASC 815. The FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. The Statement changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 was incorporated into ASC 815, *Derivatives and Hedging* (“ASC 815”). ASC 815 requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. This statement became effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard did not have any impact on the Company’s financial position or results from operations.

19. Differences Between Canadian and United States Generally Accepted Accounting Principles – continued

a) Adjustments to Consolidated Financial Statements – continued

iii) New Accounting Pronouncements – Recently Adopted - continued

ASC 105. The Financial Accounting Standards Board ("FASB") issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*", ("SFAS No. 168") "*— a replacement of FASB Statement No. 162.* SFAS No. 168 is the new source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. This statement was incorporated into ASC 105, *Generally Accepted Accounting Principles* under the new FASB codification which became effective on July 1, 2009. The new Codification supersedes all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The Company adopted this statement during the fourth quarter of 2009. The adoption of this standard did not have any impact on the Company's financial position or results from operations.

ASC 855. In May 2009, the FASB issued ASC No. 855, "*Subsequent Events,*" which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. It sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 was effective for financial statements issued for interim and annual periods ending after June 15, 2009 and did not have any impact on the Company's financial statements.

Management has evaluated subsequent events through the date the financial statements were issued.

iv) New Accounting Pronouncements – Not Yet Adopted

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements,* which is included in the ASC in Topic 820 (Fair Value Measurements and Disclosures). ASU 2010-06 requires new disclosures on the amount and reason for transfers in and out of Level 1 and 2 fair value measurements. ASU 2010- 06 also requires disclosure of activities, including purchases, sales, issuances, and settlements within the Level 3 fair value measurements and clarifies existing disclosure requirements on levels of disaggregation and disclosures about inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The Company is currently assessing the impact of adoption of ASU 2009-14 and does not currently plan to early adopt.

20 Restatement of Prior Year Figures

For the year ended February 28, 2009, after a detailed review of the fair value calculations for goodwill, the Company has decided to write off its goodwill asset as its market capitalization as at February 28, 2009 no longer supported it. Goodwill was reduced by $3,353,543 with a corresponding expense for impairment write down of goodwill in its fiscal year ended February 28, 2009.

Balance Sheet as at February 28, 2009		As Previously Reported		Restatement		As Restated
Goodwill	$	3,353,543	$	(3,353,543)	$	-
Deficit	$	(39,601,423)	$	(3,353,543)	$	(42,954,966)
Statement of Loss and Comprehensive Loss for the year ended February 28, 2009						
Impairment write down of goodwill	$	-	$	3,353,543	$	3,353,543
Net loss for the year	$	(2,313,695)	$	(3,353,543)	$	(5,667,238)
Comprehensive loss	$	(2,329,054)	$	(3,353,543)	$	(5,682,597)
Loss per share – basic and diluted	$	(0.58)	$	(0.84)	$	(1.42)

The restatement did not have any impact on cash flows used in/provided by operating, investing or financing activities.