# GLG LIFE TECH CORPORATION

## MANAGEMENT DISCUSSION & ANALYSIS

## For the Three and Twelve months ended December 31, 2011

## Dated: August 14, 2012

## Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of GLG Life Tech Corporation is dated August 14, 2012, which is the date of filing of this document. It provides a review of the financial results for the three and twelve months ended December 31, 2011 compared to the same periods in the prior year.

This MD&A relates to the consolidated financial condition and results of operations of GLG Life Tech Corporation ("we," "us," "our," "GLG" or the "Company") together with GLG's subsidiaries in the People's Republic of China ("China") and other jurisdictions. As used herein, the word "Company" means, as the context requires, GLG and its subsidiaries. The common shares of GLG are listed on the Toronto Stock Exchange (the "Exchange") under the symbol "GLG". Except where otherwise indicated all financial information reflected herein is expressed in Canadian dollars and determined on the basis of U.S. generally accepted accounting principles ("US GAAP"). These principles differ in certain respects from Canadian generally accepted accounting principles ("Canadian GAAP"). The differences as they affect the interim financial statements are described in note 2 and note 3 of our consolidated interim financial statements as at and for the three and twelve months ended December 31, 2011 as well as in note 26 of the annual consolidated financial statements as at and for the year ended December 31, 2010. This MD&A should be read in conjunction with the interim consolidated financial statements and notes thereto for the twelve and three months ended December 31, 2011 as well as the annual consolidated financial statements and notes thereto and the MD&A of GLG for the year ended December 31, 2010. Additional information relating to GLG Life Tech Corporation including GLG's Annual Information Form can be found on GLG's web site at www.glglifetech.com or on the SEDAR web site for Canadian regulatory filings at www.sedar.com.

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated interim financial statements and the reported amounts of revenue and expenses during the reporting period. GLG bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

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GLG has issued guidance on and reports on certain non-GAAP measures that are used by management to evaluate the Company's performance. Because non-GAAP measures do not have a standardized meaning, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled with their nearest GAAP measure. Where non-GAAP measures are reported, GLG has provided the definition and reconciliation to their nearest GAAP measure in section "NON-GAAP Financial Measures".

## Forward-Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" and "forward looking information" (collectively, "forward-looking statements") within the meaning of applicable securities laws. Such forward-looking statements include, without limitation, statements evaluating the market, potential demand for stevia and general economic conditions and discussing future-oriented costs and expenditures. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or

"does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases or words and phrases that state or indicate that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

While the Company has based these forward-looking statements on its current expectations about future events, the statements are not guarantees of the Company's future performance and are subject to risks, uncertainties, assumptions and other factors which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Such factors include amongst others the effects of general economic conditions, consumer demand for our products and new orders from our customers and distributors, changing foreign exchange rates and actions by government authorities, uncertainties associated with legal proceedings and negotiations, industry supply levels, competitive pricing pressures and misjudgments in the course of preparing forward-looking statements. Specific reference is made to the risks described herein under the heading "Risks Related to the Company's Business" and "Risks Associated with Doing Business in the People's Republic of China" for a discussion of these and other sources of factors underlying forward-looking statements and those additional risks set forth under the heading "Risk Factors" in the Company's Annual Information Form for the financial year ended December 31, 2010. In light of these factors, the forward-looking events discussed in this MD&A might not occur.

Further, although the Company has attempted to identify factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

As there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements, readers should not place undue reliance on forward-looking statements.

Financial outlook information contained in this MD&A about prospective results of operations, capital expenditures or financial position is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information as of the date hereof. Such financial outlook information should not be used for purposes other than those for which it is disclosed herein.

## Overview

We are a leading producer of high quality stevia extract. Stevia extracts, such as Rebaudioside A (or Reb A), are used as all natural, zero-calorie sweeteners in food and beverages. Our revenue is derived primarily through the sale of high-grade stevia extract to the food and beverage industry. We conduct our stevia development, refining, processing and manufacturing operations through our five wholly-owned subsidiaries in China. Our operations in China include four processing factories, stevia growing areas across eight provinces, and four research and development centers engaged in the development of high-yielding stevia seeds and seedlings. Our processing facilities have a combined annual throughput of 41,000 metric tons of stevia leaf and 1,500 metric tons of RA 97.

The Company also has an 80% interest in Dr.Zhang's All Natural and Zero Calorie Beverage and Foods Company ("AN0C") formed in 2010. AN0C is focused on the sales and distribution of consumer food and beverage

products in China. These consumer products are sweetened with the Company's stevia products and have low or zero calories.

Our revenues were $0.5 million for the three months ended December 31, 2011 compared to $19.3 million for the three months ended December 31, 2010. Our revenues were $24.9 million for the twelve months ended December 31, 2011 compared to $58.9 million for the twelve months ended December 31, 2010.

We had a net loss attributable to the Company of $47.6 million for the three months ended December 31, 2011 compared to a net loss of $3.2 million for the three months ended December 31, 2010. We had a net loss attributable to the Company of $90.5 million for the twelve months ended December 31, 2011 compared to a net loss of $3.1 million for the comparable period in 2010.

**Factors Affecting the Company's Results of Operations**

The Company's operating results are primarily affected by the following factors:

1. ***Consumer Demand***. The Company believes that consumer demand for stevia-sweetened food and beverage products and tabletop stevia sweeteners will continue to expand as high-purity stevia extracts are positioned to become a leading high-intensity sweetener. High-purity stevia extracts are zero calorie, 100% natural, 200-300 times sweeter than sugar, and do not have the perception of potential health risks that may be associated with artificial sweeteners. Additionally, the Company believes that consumer acceptance of stevia is expected to increase in connection with regulatory approval in the US, EU, China and elsewhere. Media reports on the health risks of sugar consumption is intensifying and the company believes is expected to drive consumer uptake and demand in China for all-natural zero-calorie products. Demand for AN0C's consumer products may also be very sensitive to external factors such as seasonality and weather. The Company's results of operations will be affected by consumer acceptance of, and demand for, stevia-sweetened products and the Company's ability to increase its production capacity in order to meet any increased demand.
2. ***Price of Stevia Extract***. The Company believes that it will be able to maintain a low cost of production of high-purity stevia extract through process innovation and vertical integration (from seed development to high-purity stevia extract production). By maintaining a low cost of production, the Company believes it will be able to reduce the price it charges for high-purity stevia extract, thereby strengthening the competitive position of high-purity stevia extract relative to other high-intensity sweeteners and sugar.
3. ***Raw Material Supply and Prices; Cost of Sales.*** The price that the Company must pay for stevia leaf and the quality of such stevia leaf affects the Company's results of operations. The cost and quality of stevia leaf available is driven primarily by the rebaudioside A content contained in stevia leaf and the quality of the stevia harvested during a particular growing period. The key factors driving the Company's cost of sales include the cost of stevia leaf, stevia leaf quality, salaries and wages of the Company's manufacturing labour, manufacturing overhead such as supplies, power and water used in the production of the Company's high-grade stevia extract, and depreciation of the Company's high-grade stevia extract processing plants. Major factors in the AN0C business include cost trends for PET chips and sugar. As a large proportion of cost of sales for consumer products is packaging, the cost level for PET chips may impact the company's results of operations.

4. **Seasonality** –The harvest of the stevia leaves typically occurs starting at the end of the July and continues through the fall of each year. GLG's operations in China are also impacted by Chinese New Year celebrations during the month of January or February each year, during which many businesses close down operations for approximately two weeks. GLG's production year runs October 1 through September 30 each year. Sales volumes for AN0C ready-to-drink teas and vitamin enriched waters, are usually higher in the summer months and peak right before the Mid-Autumn's Festival and National Holidays in late September or October of each year.

5. **Competition in the Consumer Product Market in China** – The level of competition that the company must face in the consumer food and beverage market in China may affect the Company's results of operations. Promotional and advertising expenditures may be necessary to build and maintain AN0C's brand awareness and nationwide distribution network. The beverage industry in China is dominated by a few large players that participate in vigorous competition tactics to grow their respective market share. The Company believes that AN0C has a unique product with many unmatched benefits to differentiate itself from competing products and draw consumer interest and demand.

6. **Distribution –** The Company believes that distribution for its AN0C products is a fundamental requirement in order to remain the leading brand in China for all naturally sweetened zero-calorie products. Strong relationships between AN0C and its tier I distributors are of key importance to establishing a national distribution network in China.

Unfavourable changes in any of these general conditions could negatively affect the Company's ability to grow, source, produce, process and sell stevia and otherwise materially and adversely affect the Company's results of operations.

## Critical Accounting Estimates and Assumptions

The Company's significant accounting policies are subject to estimates and key judgements about future events, many of which are beyond management's control. A summary of the Company's significant accounting policies is included in Note 2 of the Company's audited consolidated financial statements for the year ended December 31, 2011.

The preparation of financial statements in conformity with generally accepted accounting principles requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to our financial statements.

We believe that our application of accounting policies, and the estimates inherently required therein, are reasonable. Our accounting policies and estimates are periodically re-evaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

***Changes in Significant Accounting Policies***

Prior to January 1, 2011, we prepared our consolidated financial statements in conformity with Canadian GAAP and provided a supplemental reconciliation to U.S. GAAP. Effective January 1, 2011, we adopted U.S. GAAP as the reporting standard for our consolidated financial statements. Our consolidated interim financial statements for the three and twelve months ended December 31, 2011, including related notes, have therefore been prepared in accordance with U.S. GAAP. All comparative financial information contained in our consolidated interim financial statements has been recast to reflect our results as if they had been historically reported in accordance with U.S. GAAP. These adjustments resulted in a decrease in deficit of $2,738,562, an increase in common share capital of $57,067, an increase in additional paid-in capital of $1,429,330, and an increase in PP&E of $4,224,959 at January 1, 2011. These differences are outlined in our annual audited consolidated financial statements for the year ended December 31, 2010 in note 26.

***Inventory policy***

We measure our inventory at the lower of cost or net realizable value ("NRV") with respect to raw materials, finished goods and work-in-progress. NRV for finished goods and work-in-progress is generally considered to be the selling price in the ordinary course of business less the estimated costs of completion and estimated costs to make the sale.

Provisions for excess, obsolete or slow moving inventory are recorded after periodic evaluation of historical sales, current economic trends, forecasted sales, estimated product lifecycles and estimated inventory levels. The accounting estimate related to valuation of inventories is considered a critical accounting estimate because it is susceptible to changes from period-to-period due to purchasing practices, accuracy of sales and production forecasts, introduction of new products, product lifecycles, product support, exchange rates, sales prices new competitive entrants and foreign regulations governing food safety. If actual results differ from our estimates, a reduction to the carrying value of inventory may be required, which will result in inventory write-offs and a decrease to gross margins.

***Stock-based compensation***

Our accounting estimate related to stock-based compensation is considered a critical accounting estimate because estimates are made in calculating compensation expense including expected option lives, forfeiture rates and expected volatility. The fair market value of our common stock on the date of each option grant was determined based on the closing price of common stock on the grant date. Expected option lives are estimated using vesting terms and contractual lives. Expected forfeiture rates and volatility are calculated using historical information. Actual option lives and forfeiture rates may be different from estimates and may result in potential future adjustments which would impact the amount of stock-based compensation expense recorded in a particular period.

***Income taxes***

We recognize future income tax assets when it is more likely than not that the deferred income tax assets will be realized. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the future income tax assets could

be reduced or increased, resulting in an income tax expense or recovery. We re-evaluate our future income tax assets on a regular basis.

***Recognition and impairment of goodwill***

Goodwill is tested for impairment at least annually or when indicated by events or changes in circumstances, by comparing the fair value of a particular reporting unit to its carrying value. When the carrying value of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying value to measure any impairment loss. We performed our last goodwill impairment test on September 30, 2011 since the balance was nil as of December 31, 2011.

***Property, plant and equipment and long-lived assets***

Intangible assets include customer relationships, patents and technology. Intangible assets are amortized over the estimated useful life of each asset unless the life is determined to be indefinite.

We evaluate the recoverability of long-lived assets and asset groups whenever events or changes in circumstances indicate that the carrying value may not be recoverable. When such a situation occurs, the estimated undiscounted future cash flows anticipated to be generated during the remaining life of the asset or asset group are compared to its net carrying value. When the net carrying amount of the asset or asset group is less than the undiscounted future cash flows, an impairment loss is recognized to the extent by which the carrying amount of long lived assets or asset group exceeds its fair value.

Management's estimates of product prices, foreign exchange, production levels and operating costs are subject to risk and uncertainties that may affect the determination of the recoverability of the long-lived asset groups. It is possible that material changes could occur that may adversely affect management's estimates.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

***Comprehensive Income***

In June 2011, the FASB provided amendments to ASU Topic 820 requiring an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements, eliminating the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. Additionally, the amendments require an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. These amendments will be effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. We do not expect the adoption of them amendments to have a material impact on the Company's financial position, results of operations or cash flow.

## Corporate Developments for the Twelve months ended December 31, 2011

### NEW AGREEMENTS AND COLLABORATIONS

On March 18, 2011 the Company announced the collaboration with International Flavors and Fragrances ("IFF") to develop the extraction capability for high grade Rebaudioside C extract for use by IFF as a flavor modulator and for the exclusive supply to IFF of such extract. On November 30, 2011, the Company further announced the signing of a renewable five-year product supply agreement with IFF for high-purity Reb C.

IFF is a global leader in the creation of flavors and fragrances used in a wide variety of consumer products and packaged goods. The signing of the exclusive product supply agreement by GLG and IFF jointly leverages each company's strengths to pursue exploration and commercialization of Reb C which has demonstrated its proficiency as a sweetness modulator in food and beverage formulations and is expected to provide an exciting market opportunity for the companies.

On July 18, 2011 the Company announced that the United States Food and Drug Administration ("FDA") has issued a Generally Recognized as Safe (GRAS) Letter of No Objection for GLG's high purity stevia extracts: PureSTV™ (Filing No. GRN000348) and BlendSure™ (Filing No. GRN000349). These high purity extracts both contain greater than 95% steviol glycosides. On December 5, 2011, the Company announced that the FDA had further issued a GRAS Letter of No Objection for GLG's high purity stevia extract, Rebpure™ (Filing No. GRN000380), which contains greater than 95% Rebaudioside A (RA) and 97% of steviol glycosides.

The Company created a new subsidiary, AN0C Stevia Solutions Company, to focus on providing naturally sweetened zero and reduced calorie food and beverage formulations to customers outside China. The solutions and formulations will be all natural - natural sweeteners, natural flavours and natural colours, for use in zero or low calorie beverage and food products. On August 2, 2011, the Company announced the launch of AN0C Stevia Solutions' first product line – the Dream Sweetener series. Using GLG's BlendSure and other natural ingredients, the Dream Sweetener product line (which initially consists of 10x, 30x, 60x, and 100x the sweetness of sugar) was formulated to maintain the best taste while replacing sugar or artificial sweeteners in different beverage and food applications. A patent application for this series of new products is in the process of being filed with the State Intellectual Property Office in China, and AN0C plans to file a PCT application to attain international patent protection for this IP.

The Company began marketing its AN0C Stevia Solutions during the third quarter and has subsequently generated considerable interest in its Dream Sweetener and Low Calorie Health Sugar products. These new products are uniquely formulated to provide either zero or lower calorie sweetener solutions that enable Food and Beverage (F&B) companies to substitute their existing high calorie sweeteners without altering their existing formulations and taste. These products represent a major innovation for F&B companies since they can eliminate a lot of the time spent trying to figure out how to mask the aftertaste of stevia.

GLG and its AN0C joint venture business entered into a milestone agreement with the Fengyang County Government (with the support of the Chuzhou City Government of Anhui province in China) that strengthens its consumer products business. Under the agreement, GLG and AN0C agreed to register their headquarters in Xiaogang Village in Fengyang County while maintaining the marketing and sales operation center in Shanghai. The Fengyang government agreed to give the AN0C business nationwide preferred tax treatment through its headquarters. The Fengyang government and the Chuzhou City Government also agreed to proactively assist AN0C in obtaining a one billion RMB credit facility with interest rates discounted from market

rates from China financial institutions. On December 12, 2011, the Company announced that it has arranged the first loan under the financing support agreement. The Company plans to arrange additional loans on an as-needed basis and has the continued support of the Fengyang County Government.

## Agricultural R&D Progress

In October, GLG provided an update on the progress of its stevia seed propagation program. The Company's Huinong Three ("H3") proprietary stevia variety will be available for planting in the 2012 growing season. These new seeds provide GLG with a significant cost reduction in its production of high-purity stevia extracts, due to both the very high levels of RA naturally found in these plants and the higher leaf yields produced from the larger H3 plants. The H3 plants have approximately 76% RA in the plant leaf, which is 26% higher than the first generation (H1) seeds and will produce 46% more leaf per acre than the earlier H1 plants.

The Company also announced its next generation plant varieties. Huinong Four ("H4") is on track to be commercially available for distribution to its contract farmers for the 2012 stevia growing season. The H4 proprietary strain results show a 16% increase in leaf yield over the H3 plants, while maintaining a similar 76% RA content. The H4 seeds will play an important role, as parents, in the advancement of the Company's next generation of seeds – the H6 strain. The GLG Agricultural R&D team has also developed a new Huinong Five ("H5") plant strain in 2011, which has a seed capable of producing a high amount of stevioside (STV). The H5 plant strain's STV content of approximately 70% makes it the highest STV seed available in the world today, with a leaf yield between the H2 and H3 strains. H5 will help GLG further reduce its production costs of its BlendSure™ line of products.

## AN0C™ Progress

AN0C first launched its Ready-to-Drink (RTD) teas in March 2011, and re-introduced them in a new custom branded bottle in the third quarter to better differentiate AN0C's product. AN0C has also launched six flavours of zero calorie vitamin enriched waters as well as protein drinks and tabletop sweeteners. AN0C will continue to formulate and launch new products, which include additional offerings in major beverage categories and health-oriented drinks. The products will be positioned in the medium to premium segment and target health-conscious consumers or those that have certain medical considerations. Added emphasis will be given to marketing efforts in schools, hospitals and some organizations as well as distribution through health product channels. AN0C expects China East will be the primary market for its products. AN0C is the exclusive RTD Tea sponsor of the China National Olympic Swim Team, and plans to continue leveraging its existing brand equity investment as well as its distribution channels to launch the new products into the Chinese market.

On August 29, 2011 AN0C jointly hosted a National Conference in Beijing with the Chinese Government celebrating the success of Xiaogang's economic progress and AN0C's major role in its development. Many leading national health experts and representatives of China's health associations were in attendance in support of contributions from GLG and AN0C towards improving consumer diets, helping combat obesity and diabetes, and promoting overall health and wellness. One of the keynote speakers, Professor Hong Zhaoguang, who has over 200 million followers of his books and TV show and is a director of GLG, spoke on the importance of diet to maintain and improve one's health. Members of the Chinese National Olympic Swim team were also on hand for the official signing of the two-year exclusive tea sponsorship agreement with AN0C company officials. Under the agreement, AN0C is the exclusive tea sponsor of the China National Swimming Team for a term of two years which includes the 2012 Olympics in London.

In early September, AN0C received complaints from a few of its distributors regarding product packaging and product appearance quality of the RTD tea products. AN0C's investigation found that two of its main OEM Partner's bottling plants were responsible for these production issues. Through AN0C and its OEM Bottler's review in mid-September, Approximately 10,080 cases of RTD and vitamin enriched waters have been found to be substandard by AN0C. AN0C and its OEM bottler have reached a settlement for these products.

During this investigation, AN0C Management withheld additional RTD tea and vitamin enriched water production orders, as well as orders for their new products, to this OEM Bottler until these production issues were resolved and an agreed settlement for damages was reached. Any production issue that had the potential to negatively impact the brand image required a very conservative approach by the AN0C Management Team since the AN0C products are positioned as a higher quality product than other national brands.

## Results from Operations

The following results from operations have been derived from and should be read in conjunction with the Company's interim consolidated financial statements for the three and twelve month periods ended December 31, 2011 and 2010. The Company has reclassified certain of the figures presented for comparative purposes to conform to the financial statement presentation adopted in the current period. Certain prior year's figures have been recast to conform with U.S. GAAP accounting standards.

| In thousands Canadian $, except per share amounts | 3 Months Ended Dec 31 | | % Change | Year Ended Dec 31 | | % Change |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | | 2011 | 2010 | |
| Revenue | $473 | $19,300 | (98%) | $24,840 | $58,927 | (58%) |
| Cost of Sales | $3,205 | $15,499 | (79%) | $26,422 | $41,365 | (36%) |
| % of Revenue | 678% | 80% | 597% | 106% | 70% | 36% |
| Gross Profit | ($2,732) | $3,801 | (172%) | ($1,582) | $17,562 | (109%) |
| % of Revenue | (578%) | 20% | (597%) | (6%) | 30% | (36%) |
| Expenses | $14,243 | $4,208 | 238% | $45,451 | $15,097 | 201% |
| % of Revenue | 3011% | 22% | 2989% | 183% | 26% | 157% |
| Income (loss) from Operations | ($16,975) | ($407) | 4071% | ($47,033) | $2,465 | (2008%) |
| % of Revenue | (3589%) | (2%) | (3587%) | (189%) | 4% | (194%) |
| Other Income (Expenses) | ($31,520) | ($2,120) | 1387% | ($47,684) | ($5,028) | 848% |
| % of Revenue | (6664%) | (11%) | (6653%) | (192%) | (9%) | (183%) |
| Net Income (loss) before Income Taxes and Non-Controlling Interests | ($48,495) | ($2,527) | 1819% | ($94,717) | ($2,563) | 3596% |
| % of Revenue | (10253%) | (13%) | (10240%) | (381%) | (4%) | (377%) |
| Net Income (loss) after Income Taxes and Non-Controlling Interests | ($47,621) | ($3,234) | 1373% | ($90,514) | ($3,131) | 2791% |
| Earnings (loss) per share (Basic & Diluted) | ($1.45) | ($0.12) | 1108% | ($2.82) | ($0.12) | 2250% |
| Total Comprehensive Income (loss) | ($48,485) | ($4,858) | 898% | ($81,728) | ($3,841) | 2028% |
| *% of Revenue* | (10251%) | (25%) | (10225%) | (329%) | (7%) | (322%) |
| Asset Impairment Losses | $29,714 | $0 | 0% | $41,904 | $0 | 0% |
| *% of Revenue* | 6282% | 0% | 0% | 169% | 0% | 0% |
| Consolidated Depreciation & Amortization | $3,362 | $2,964 | 13% | $10,503 | $10,394 | 1% |
| % of Revenue | 711% | 15% | 695% | 42% | 18% | 25% |
| Stock based Compensation | $314 | $968 | (68%) | $2,700 | $3,308 | (18%) |
| % of Revenue | 66% | 5% | 61% | 11% | 6% | 5% |
| EBITDA (1) | ($5,992) | $3,706 | (262%) | ($22,781) | $16,185 | (241%) |
| % of Revenue | (1267%) | 19% | (17%) | (92%) | 27% | (119%) |

*(1) EBITDA is a non-GAAP financial measure. GLG calculates it by adding to net income before taxes (1) Depreciation and amortization expense as reported on the cash flow statement, (2) Other Income (Expenses), (3) Stock-based compensation expense, (4) Non-cash asset impairment losses and other non-cash provisions and (5) Non-controlling interest. This might not be the same definition used by other companies. For the discussion of EBITDA, and the reconciliation of EBITDA to net income before taxes and after minority interest under US GAAP, please see 'Non-GAAP Financial Information.*

| In thousands Canadian $ | 3 Months Ended Dec 31 | | Year Ended Dec 31 | |
|---|---|---|---|---|
| | Stevia Business | AN0C Consumer Products Business | Stevia Business | AN0C Consumer Products Business |
| Revenue | $178 | $295 | $17,139 | $7,701 |
| Cost of Sales | $2,895 | $310 | $19,658 | $6,764 |
| Gross Profit (loss) | ($2,717) | ($14) | ($2,519) | $938 |
| Gross Profit % | (1526%) | (5%) | (15%) | 12% |
| G&A (cash) | $2,157 | $3,485 | $9,136 | $22,904 |
| EBITDA | ($3,566) | ($2,426) | ($5,586) | ($17,195) |
| EBITDA as a % of revenue | (2003%) | (821%) | (33%) | (223%) |

## Revenue

Revenue for the three months ended December 31, 2011 which was derived from stevia sales and the sale of consumer beverage products was $0.5 million, a decrease of 98% compared to $19.3 million in revenue for the same period last year.

Revenue for the twelve months ended December 31, 2011 was $24.8 million compared to $58.9 million for the same period in 2010, a decrease of 58% compared to revenue for the same period last year. The total revenue was composed of $17.1 million for stevia sales and $7.7 million for consumer products sales.

For the three months ended December 31, 2011, the total sales of $0.5 million are composed of stevia sales of $0.2 million and consumer product sales of $0.3 million. Approximately 36% of sales for the twelve month period are derived from sales denominated in US dollars and 64% are derived from sales denominated in RMB. As at December 31, 2011, 100% of the Company's sales are in foreign currencies and translated into Canadian dollars for financial reporting purposes.

### Stevia Business

Stevia sales of $0.2 million, for the three months ended December 31, 2011 are net of intersegment sales to AN0C (Full Year 2011 $1.2 million). Stevia sales for the fourth quarter 2011 were down by 99% compared to the fourth quarter in 2010, which was driven by lower demand for the Company's products during the fourth quarter from its customers. There are a number of factors that have led to the decline in stevia sales:

1. The first contributing factor was the significant inventory that some of GLG's customers purchased in 2010 and in the first half of 2011. Some of these purchases were made by distributors and customers in anticipation of markets such as Europe and India opening up earlier.
2. The second contributing factor to lower sales in the fourth quarter of 2011 had been that end customers have had longer R&D projects cycles than expected and resulting product launch delays.

3. The third contributing factor to lower sales was the increased level of competition seen in the stevia market place during 2011 putting pressure on industry pricing due to an over supply against industry demand.
4. The fourth issue has been an unanticipated delay in the China Sugar Reserve project that was originally anticipated to contribute significant revenues in the fourth quarter of 2011. Although there were no additional orders from its China partner related to the Health Sugar Project for the China Sugar Reserve; our partner did successfully complete their first 10,000 metric ton facility in Xiaogang to produce on a large scale the low-calorie health sugar. This achievement was a key milestone in proving the scalability of the technology to produce low-calorie health sugar in large scale production environment, which is a requirement to move forward with the China Sugar Reserve project.

The Company has seen an increase in demand for stevia products subsequent to the fourth quarter based on the following factors:

1. the European market opening in December, 2011,
2. the addition of new distributors and new sales agents in the fourth quarter and early 2012,
3. the availability of new GLG products and formulation capabilities through AN0C Stevia Solutions,
4. the development of new customer prospects by GLG sales teams including many multinationals (“MNC”) that are already using stevia in their products. The MNC opportunities are now open to the Company after certain contract exclusivities with Cargill no longer apply since September 30th, 2011. This change has allowed the company to pursue larger existing stevia users that it had been previously prohibited in pursuing by the Cargill supply agreement,
5. examples of GLG customers that have launched new products include: flavoured water and fruit filling in Europe, stevia-sweetened beverage line in US, powdered blends and power bars in Europe, tabletop application in South America, beverage in Latin America, 2 flavoured milks and additional beverage application in Asia-Pacific region,
6. GLG’s customers and prospects currently have many additional product development projects underway for a variety of food and beverage applications.

## AN0C Consumer Products Business

The Company’s consumer products business, AN0C, had sales of $0.3 million in the fourth quarter of 2011. In the approximately nine months of sales activity (end of March through December) AN0C has sold approximately 29.2 million bottles of its RTD teas and 1.4 million bottles of vitamin enriched waters. A series of factors contributed to the reduction in sales in the fourth quarter. The three major factors that impacted our sales through December 31, 2011 were as follows:

1. OEM Production Issues - In early September, AN0C received complaints from a few of its distributors regarding product packaging and product appearance quality of the RTD tea products. AN0C’s investigation found that two of its main OEM Partner’s bottling plants were responsible for these production issues. Through AN0C and its OEM Bottler’s review, approximately 10,080 cases of RTD and vitamin enriched waters have been found to be substandard by AN0C. AN0C and its OEM bottler have reached a settlement for these products.
2. Delayed Launch of New Products - In the long term interest of maintaining the high-quality image and reputation of the AN0C brand, additional production orders were withheld until we had the

confidence that production issues had been resolved and a fair settlement was reached with our OEM Bottler. This also resulted in the delay in orders for new products, which caused them to miss the planned launch window. Since the new products would have missed the peak selling season for beverages in China, it was decided to reschedule the new product launches.

3. Weather – The 2011 summer and fall weather was more moderate in China compared to the previous year and industry wide sales of RTD teas and other beverages that usually sell well during the hot weather were adversely impacted. This resulted in excess inventory in the sales channels for longer than expected, and increased competition to stimulate sales.

The average revenue per bottle was higher by 22% for the fourth quarter compared to the third quarter as the sales mix shifted more towards vitamin enriched waters as well as increases in the individual prices. The first sales of vitamin enriched waters began in the third quarter, and were on average sold at a higher price than the RTD teas. A small amount of zero-calorie tabletop sweeteners also started selling in the fourth quarter.

## Cost of Sales

Cost of sales for the three months ended December 31, 2011 was $3.2 million compared to $15.5 million in cost of sales for the same period last year. Cost of sales as a percentage of revenues was 678% compared to 80% in the fourth quarter of 2010. The prior period does not have any consumer product business reflected as that business only commenced in 2011.

Cost of sales for the twelve months ended December 31, 2011 was $26.4 million compared to $41.4 million for the same period in 2010. This was composed of $19.7 million for the stevia business and $6.7 million for the consumer products business.

### Stevia Business

For the three months ended December 31, 2011 the cost of sales related to the stevia business was $2.9 million compared to $15.5 million in cost of sales for the same period last year ($12.6 million decrease or 81%). The 81% decrease is due to the lower volume of extract sold compared to the previous year.

Cost of sales for the three months ended December 31, 2011 for stevia as a percentage of revenues was 1526% compared to 80% in the same period last year. The largest impact on the cost of sales as a percentage of revenue was the fixed non-cash amortization charges in cost of sales that were not sufficiently covered by the amount of revenue generated for the stevia segment and additional charges driven by lower utilization of stevia facilities in the fourth quarter that would ordinarily flow to inventory during periods of higher plant utilization.

For the twelve months ended December 31, 2011 the cost of sales related to the stevia business was $19.7 million compared to $41.4 million in cost of sales for the same period last year ($21.7 million decrease or 52%). The 52% decrease is due to the lower volume of extract sold compared to the previous year.

Cost of sales for the twelve months ended December 31, 2011 for stevia as a percentage of revenues was 115% compared to 70% in the same period last year. The largest impact on the cost of sales as a percentage of

revenue was the fixed non-cash amortization charges in cost of sales that were not sufficiently covered by the amount of revenue generated for the stevia segment and additional charges driven by lower utilization of stevia facilities in the third and fourth quarters that would ordinarily flow to inventory during periods of higher plant utilization.

The key factors that impact stevia cost of sales and gross profit percentages in each period include:

1. The price paid for stevia leaf and the stevia leaf quality, which is impacted by crop quality for a particular year/period and the price per kilogram for which the extract is sold. These are the most important factors that will impact the gross profit of GLG's stevia business;
2. Salaries and wages of manufacturing labour;
3. The sale of by-products (also known as co-products) or further processing of by-products into high value added finished goods. Sales of by-products have historically increased the overall gross profit of the stevia business. With the addition of increased finished goods production facilities at Runhao, GLG expects continued processing of these by-products into additional finished products such as high purity RA and STV extracts as well as other finished products;
4. Other factors which also impact stevia cost of sales to a lesser degree include:
    - Water and power consumption;
    - Manufacturing overhead used in the production of stevia extract, including supplies, power and water;
    - Net VAT paid on export sales;
    - Exchange rate changes;
    - Depreciation and capacity utilization of the stevia extract processing plants; and
    - Depreciation of intangible assets related to intellectual property.

GLG's stevia business is affected by seasonality. The harvest of the stevia leaves typically occurs starting at the end of the July and continues through the fall of each year. GLG's operations in China are also impacted by Chinese New Year celebrations during the month of January or February each year, during which many businesses close down operations for approximately two weeks. GLG's production year runs October 1 through September 30 each year.

## AN0C Consumer Products Business

For the three months ended December 31, 2011, cost of sales related to the consumer products business was $0.3 million and includes costs associated with bottling the beverage products, supplies and ingredients used to manufacture the beverages, and shipping the products to the different distribution channels. The average cost of sales per bottle increased 10.9% in the fourth quarter compared to the third quarter, as it reflected the addition of the more expensive vitamin enriched waters to the product mix. By product line, the cost of sales for RTD tea products decreased 3.1% while the cost of sales for vitamin enriched waters increased slightly by 1.6%. Packaging costs as a percentage of product costs were lower in the fourth quarter, accounting for 56.3%, although it was still the largest component of product costs. Average OEM charges as a percentage of product costs were down slightly in the fourth quarter compared with the third quarter. AN0C has lower ingredient

costs by utilizing GLG stevia extracts relative to the use of sugar. Higher sugar costs have been often cited by the China beverage industry previously as a cost input that was impacting their margins.

For the twelve months ended December 31, 2011, cost of sales related to the consumer products business was $6.7 million.

The key factors that impact consumer product cost of sales and gross profit percentages in each period include:

- The price paid for OEM manufacturing and bottling
- Material costs (bottles, caps, labels)
- Ingredient costs
- Shipping costs

## Gross Profit (loss)

Gross loss for the three months ended December 31, 2011 was $2.7 million, a decrease from the $3.8 million in gross profit for the comparable period in 2010. The gross profit margin for the three months period ended December 31, 2011 for the Company as a whole was negative 578% compared to 20% for the three months ended December 31, 2010. The main contributors to the negative gross profit were (1) the high fixed non-cash charges that are allocated to cost of sales each period and sales were not sufficient to contribute enough margin to cover these amortized amounts and, (2) additional charges driven by lower utilization of stevia facilities in the quarter that would ordinarily flow to inventory during periods of higher plant utilization.

Gross loss for the twelve months ended December 31, 2011 was $1.6 million compared to a gross profit of $17.6 million for the comparable period in 2010. The gross profit margin decreased to negative 6% for the twelve months ended December 31, 2011 from 30% for the comparable period in 2010. On a disaggregated basis, stevia products had a gross margin of (15%) and the consumer products had a gross margin of 12%. Gross profit for the stevia adjusted for twelve months of capacity charges ($5.1 million) would have been approximately 15% for the period ending December 31, 2011 compared to fourth quarter 2010 gross profit margin of 20%.

### Stevia Business

The decrease in gross profit for the stevia business for the fourth quarter of 2011 compared to the fourth quarter of 2010 is driven by the lower sales achieved in the fourth quarter 2011 compared to the fourth quarter in 2010. Gross profit was negative in the fourth quarter 2011 for the reasons described earlier.

### AN0C Consumer Products Business

For the AN0C consumer products business the gross margin on revenues was negative $0.01 million or (5%) of revenues for the fourth quarter of 2011 compared with positive 7% gross margin for the third quarter.

For the twelve months ended December 31, 2011, the gross margin on revenue was $0.9 million or 12% of revenue.

## Selling, General, and Administration Expenses

Selling, General and administration ("SG&A") expenses include sales, marketing, general, and administration costs ("G&A"), stock-based compensation, and depreciation and amortization expenses on long lived assets. A breakdown of SG&A expenses into these components is presented below:

| In thousands Canadian $ | 3 Months Ended Dec 31 | | % Change | Year Ended Dec 31 | | % Change |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | | 2011 | 2010 | |
| G&A Stevia | $2,877 | $2,455 | 17% | $9,855 | $10,012 | (2%) |
| G&A AN0C | $3,485 | $0 | 100% | $22,904 | $0 | 100% |
| Provision for receivables Stevia | $5,915 | $0 | 100% | $6,370 | $0 | 100% |
| Provision for receivables AN0C | $35 | $0 | 100% | $35 | $0 | 100% |
| Stock Based Comp | $314 | $968 | (208%) | $2,700 | $3,308 | -18% |
| Amortization Stevia | $1,521 | $785 | 94% | $3,453 | $1,777 | 49% |
| Amortization AN0C | $96 | $0 | 100% | $134 | $0 | 100% |
| Total | $14,243 | $4,208 | 70% | $45,451 | $15,097 | 67% |

G&A for the stevia business for the three months ended December 31, 2011 was $2.9 million compared to $2.5 million in the same period in 2010. Overall salaries, office costs, travel, marketing promotions costs and promotions costs in the fourth quarter of 2011 were down by approximately 54% over comparable costs in 2010 (representing 34% of the $2.9 million). Professional fees (including audit fees), insurance and listing fees were up 476% over comparable costs in 2010 (representing 66% of the $2.9 million). Management has taken steps to proactively reduce its G&A costs going forward as it works to rebuild its sales order book. At the end of December, the total number of employees in GLG's China subsidiaries was 657, which is temporarily reduced from the 1,441 employees at the end of December 2010 until our production levels require additional support.

G&A for the consumer products business was $3.5 million for the three month period ended December 31, 2011 compared to nil for the same period last year and $8.3 million for the third quarter. This represents a 58% decrease quarter over quarter. 51% of these costs were related to advertising and marketing expenditures to promote the launch of the AN0C brand and business, down from 56% from the third quarter of 2011. AN0C substantially reduced its advertising expenditures during the fourth quarter with TV advertising seeing the largest decrease. The balance of the AN0C G&A costs were related to salary (28%) and other operating costs (16%). As the beverage industry in China entered into a seasonally slower period, AN0C has also reduced its headcount to a core team of 357 at the end of December. This measure has significantly reduced the G&A costs for AN0C in the fourth quarter.

The Company has made an accounts receivable provision of $5.9 million in the fourth quarter for sales made in 2010 in its international stevia business that still remained uncollected ($5.4 million), and for some of its agriculture customers in China ($0.5 million). The provision against receivables for the year ended December 31, 2011 was $ 6.4 million and was mainly associated with the stevia business.

Stock-based compensation was $0.3 million for the three months ended December 31, 2011 compared with

$0.9 million in the same quarter of 2010. The number of common shares available for issue under the stock compensation plan is a maximum of 10% of the issued and outstanding common shares. During the quarter, compensation from vesting stock based compensation awards was recognized, due to previously granted options, new grants and restricted shares.

G&A related depreciation and amortization expenses for the three months ended December 31, 2011 were $1.5 million which is an increase of $1.1 million over the $0.4 million at December 31, 2010.

G&A for the stevia business for the twelve months ended December 31, 2011 was $9.9 million compared to $10.0 million in the same period in 2010. Overall salaries, office costs, travel, marketing promotions costs and promotions costs in 2011 were down by approximately 17% over comparable costs in 2010 (representing 67% of the $9.9 million). Professional fees (including audit fees), insurance and listing fees were up 55% over comparable costs in 2010 (representing 33% of the $9.9 million)

G&A for the consumer beverage business was $22.9 million for the twelve month period ended December 31, 2011 compared to nil for the prior period. 65% of these costs were related to advertising and marketing expenditures to promote the AN0C brand and business during the launch phase. TV advertising expenditures was the largest component, which centered around AN0C commercials airing on one of the highest viewership timeslots on CCTV, China's national TV station. The balance of the AN0C G&A costs were related to salary (25%) and other operating costs (9%).

Stock-based compensation was $2.7 million for the twelve months ended December 31, 2011 compared with $3.3 million in the same period in 2010. The decrease is due to the reduction to the original 2011 grant of restricted shares and stock options in the second quarter of 2011 as Management did not meet the full performance criteria in 2011.. The number of common shares available for issue under the stock compensation plan is 10% of the issued and outstanding common shares. During the period, compensation from vesting stock based compensation awards was recognized, due to previously granted options, new grants and restricted shares.

G&A related depreciation and amortization expenses for the twelve months ended December 31, 2011 were $3.6 million which is an increase of$2.2 million over the $1.4 million at December 31, 2010.

## Other Expenses

| In thousands Canadian $ | 3 Months Ended Dec 31 | | % Change | Year Ended Dec 31 | | % Change |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | | 2011 | 2010 | |
| **Other Income (Expenses)** | ($31,520) | ($2,120) | 1387% | ($47,684) | ($5,028) | 848% |
| % of Revenue | (6664%) | (11%) | (6653%) | (192%) | (9%) | (183%) |

Other expenses for the three months ended December 31, 2011 was $31.5 million, a $29.4 million increase compared to $2.1 million for the same period in 2010. Other expense increases are driven by asset impairment losses of $28.6 million recognized during the fourth quarter (see section asset impairment charges). Interest expense that is incurred on the Company's short term loans held in China and foreign exchange. Interest expense increased by $0.1 million in the three months ended December 31, 2011 compared to December 31, 2010 due to the decrease in the short term loan balance in China which was offset with an increase in the average interest rate paid on the loans.

Foreign exchange loss for the three months ended December 31, 2011 decreased by $0.6 million to $0.4

million gain from $1.0 million loss for the same period in 2010.

Other expenses for the twelve months ended December 31, 2011 was $47.7 million, a $42.7 million increase compared to $5.0 million for the same period in 2010. Other expenses are driven by asset impairment losses of $41.9 million recognized during the year (see section asset impairment charges) and an interest expense increase of $1.4 million incurred on the Company's short term loans held in China as well as foreign exchange gain/loss. Interest expense increased by $1.4 million in the twelve months ended December 31, 2011 compared to December 31, 2010 due to the higher average short term loan balance in China during 2011 compared to the average balance outstanding in 2010, combined with an increase in the average interest rate paid on the loans. Foreign exchange losses decreased by $0.7 million to $0.2 million compared to a foreign exchange loss of $0.9 million for the same period in 2010.

**Asset impairment charges**

In light of current economic conditions including the Company's operating performance in the second half of 2011, management conducted a test for impairment of property, plant and equipment. The Company tests for impairment using a two-step process. The first step involves the assessment of probability weighted undiscounted estimated future cash flows attributable to property, plant and equipment and comparison to carrying value. When impairment is indicated by the first step, a second step is carried out to measure the impairment using discounted cash flows to estimate the excess of fair value over carrying value. Based on the current review, management believes there are sufficient opportunities based on probability weighted undiscounted cash flows to support the recovery of the carrying value of property, plant and equipment and no impairment exists.

**Impairment of Goodwill**

During the period, management concluded there were impairment indicators present for the goodwill asset due to changes to certain external factors as well as the market capitalization of the Company being below book value as of September 30, 2011. As a result, management conducted a test for impairment of goodwill as at September 30, 2011. The Company used a present value technique to discount a series of expected future cash flows for the stevia reporting unit in order to estimate the fair value. When the estimate of fair value was compared to the carrying value it was determined that a non-cash impairment charge of $7.6 million was required to be recorded against the goodwill asset. The carrying value of goodwill is therefore $nil as at December 31, 2011 and the impairment charge was allocated to the stevia operating segment.

**Impairment of Intangible Asset**

During the third quarter in 2011, management conducted a test for impairment of the customer relationship intangible asset as there was a change in the terms of the agreement. As a result, the Company concluded there was an indicator of impairment present. The Company used a present value technique and applied a discount rate of 14.5% to discount a series of expected future cash flows for this customer relationship asset in order to estimate the fair value. When compared to the carrying value it was determined that a non-cash impairment loss of $4,540,000 was required which was recorded as at September 30, 2011. As part of our year-end procedures management conducted an additional test for impairment of the customer relationship intangible asset balance as of December 31, 2011 using a present value technique and applied a discount rate of 14.5% to discount a series of expected future cash flows for this customer relationship asset in order to

estimate the fair value. When compared to the carrying value it was determined that no additional impairment was required at December 31, 2011.

As there was an indication of impairment present, the Company also conducted the same test for impairment with respect to the tangible fixed assets, patents and acquired technologies and determined that there was no impairment of these assets present as at December 31, 2011.

**Impairment of Inventory**

The Company has recorded an impairment charge to its inventory of $29.7 million in the fourth quarter. The company has previously announced its new H3 proprietary leaf strain was successfully harvested in 2011 and it has proven to reach the plant size and rebaudioside A content that it has previously announced. This advancement in leaf size and RA content will have a material effect on the cost of its products as it is introduced into its production system. Based on the improved leaf yields, the expected cost reduction to produce high purity rebaudioside A products is in the range of 40 to 50% lower cost from levels achieved using the first generation of proprietary leaf (H1). The Company decided to implement lower stevia extract pricing in December 2011 based on the H3 leaf cost structure. A review under US GAAP ASC 330, requires an assessment of inventory value using a lower of cost or market. Using the new pricing structure released in December 2011, the inventory was deemed to require a write down of $28.4 million to bring the cost below market less an allowable profit margin. The new H3 leaf cost structure has been assessed by the Company to support the lower pricing structure released in December 2011. Additionally, there was also a write down of the AN0C finished goods inventory of $1.3 million to either reflect products that had been discontinued or that was deemed may potentially expire before it was sold after year end.

## Foreign Exchange Gains (Losses)

GLG reports in Canadian dollars but earns revenues in US dollars and Chinese Yuan ("RMB") and incurs most of its expenses in RMB. Impacts of the appreciation or depreciation of the RMB against the Canadian dollar are shown separately in Accumulated Other Comprehensive income ("AOCI") on the Balance Sheet. As at December 31, 2011, the exchange rate for RMB per Canadian dollar was 6.1881 compared to the exchange rate of 6.6269 as at December 31, 2010 reflecting an appreciation of the RMB against the Canadian dollar. The balance of the AOCI was $14.5 million on December 31, 2011 compared to balance of $5.7 million as at December 31, 2010.

The foreign exchange gain or loss is made up of realized and unrealized gains or losses due to the depreciation or appreciation of the foreign currency against the Canadian dollar. Foreign exchange losses of $0.4 million, for the fourth quarter of 2011, decreased by $0.6 million compared to a $1.0 million exchange loss for the comparable period in 2010.

The following table presents the exchange rate movement for the Canadian dollar relative to the US dollar and RMB, from December 31, 2007 to December 31, 2011:

| Exchange rates<br>Noon rate (as compared to the Canadian $) | 2011<br>31-Dec | 2011<br>30-Sep | 2011<br>30-Jun | 2011<br>31-Mar | 2010<br>31-Dec | 2009<br>31-Dec | 2008<br>31-Dec | 2007<br>31-Dec |
|---|---|---|---|---|---|---|---|---|
| U.S. Dollars | 1.0170 | 1.0389 | 1.0370 | 1.0290 | 1.0054 | 0.9515 | 0.8166 | 1.0120 |
| Chinese Yuan | 6.1881 | 6.1425 | 6.7024 | 6.734 | 6.6269 | 6.5232 | 5.5710 | 7.3910 |

| Exchange rates<br>Noon rate (as compared to the US $) | 2011<br>31-Dec | 2011<br>30-Sep | 2011<br>30-Jun | 2011<br>31-Mar | 2010<br>31-Dec | 2009<br>31-Dec | 2008<br>31-Dec | 2007<br>31-Dec |
|---|---|---|---|---|---|---|---|---|
| Chinese Yuan | 6.2933 | 6.3814 | 6.4633 | 6.5441 | 6.5911 | 6.8270 | 6.8223 | 7.3141 |

## Income Tax Expense

| In thousands Canadian $ | 3 Months Ended Dec 31 | | % Change | Year Ended Dec 31 | | % Change |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | | 2011 | 2010 | |
| Income tax recovery (expense) | ($24) | ($708) | (97%) | ($440) | ($587) | (25%) |
| Income tax expense as a percent of revenue | (5.1%) | (4%) | (1%) | (2%) | (1.0%) | (1%) |

During the three months ended December 31, 2011 the Company recorded income tax expense of $0.02 million, a decrease of $0.7 million compared to the income tax expense of $0.7 million in the comparable period in 2010.

During the twelve months ended December 31, 2011 the Company recorded an income tax expense of $0.4 million compared to income tax loss of $0.6 million in 2010.

## Net Income (Loss) Attributable to the Company

| In thousands Canadian $ | 3 Months Ended Dec 31 | | % Change | Year Ended Dec 31 | | % Change |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | | 2011 | 2010 | |
| Net Loss | ($47,621) | ($3,234) | 1373% | ($90,514) | ($3,131) | 2791% |
| percent of revenue | (10068%) | (17%) | (10051%) | (364%) | (5%) | (359%) |

For the three months ended December 31, 2011, the Company had a net loss attributable to the Company of $47.6 million compared to a net loss attributable to the Company of $3.2 for same period in 2010. The net change of $44.4 million was driven by: (1) a decrease in gross profit of $6.5 million and (2) an increase in G&A expenses of $3.6 million, (3) an increase in accounts receivable provisions of $6.4 million and (4) an increase in other income and expenses of $29.4 million (including asset impairment charges of $29.7 million). These items were offset by the increase in loss attributable to non-controlling interests of $0.8 million and a decrease in income tax expense of $0.7 million.

For the twelve months ended December 31, 2011, the Company had a net loss attributable to the Company of $90.5 million, a change of $87.4 million over the comparable period in 2010. The increase in net loss was driven by: (1) a decrease in gross profit of $19.1 million, (2) an increase in G&A expenses of $30.3 million mainly associated with marketing and advertising costs for the start-up of its AN0C joint venture and the provision for accounts receivables and (3) other income and expenses of $42.7 million. These items were offset by the increase in loss attributable to non-controlling interests of $4.6 million and a decrease in income tax expense of $0.1 million.

## Comprehensive Income

| In thousands Canadian $ | 3 Months Ended Dec 31 | | % Change | Year Ended Dec 31 | | % Change |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | | 2011 | 2010 | |
| Net Loss | ($47,621) | ($3,234) | 1373% | ($90,514) | ($3,131) | 2791% |
| Other comprehensive income (loss) | ($864) | ($1,625) | (47%) | $8,786 | ($710) | (1337%) |
| Total comprehensive income (Loss) | ($48,485) | ($4,859) | 898% | ($81,728) | ($3,841) | 2028% |

The Company recorded total comprehensive loss of $48.5 million for the three months ended December 31, 2011, comprising $47.6 million of net loss attributable to the Company and $0.9 million of other comprehensive loss. The Company recorded a total comprehensive income of $4.9 million for the three months ended December 31, 2010, comprised of $3.2 million in net income and $1.6 million in other comprehensive loss.

The Company recorded total comprehensive loss of $81.7 million for the twelve months ended December 31, 2011, comprising $90.5 million of net loss attributable to the Company and $8.8 million of other comprehensive income. The Company recorded a total comprehensive income of $3.8 million for the twelve months ended December 31, 2010, comprised of $3.1 million in net loss and $0.7 million in other comprehensive loss.

The Company's other comprehensive income (loss) is solely made up of the currency translation adjustments recorded on the revaluation of the Company's investments in our Chinese and Hong Kong subsidiaries. The other comprehensive income (loss) is held in accumulated other comprehensive income until it is realized (i.e. the subsidiaries are sold), at which time it is included in net income (loss).

## NON-GAAP Financial Measures

### *Earnings before Interest Taxes and Depreciation ("EBITDA") and EBITDA Margin*

#### Consolidated EBITDA

EBITDA for the quarter ended December 31, 2011 was negative $5.9 million, compared to $3.7 million for the same period in 2010. EBITDA for the twelve months ended December 31, 2011 was negative $22.8 million compared to $16.2 million for the twelve months ended December 31, 2010. The main drivers for the decrease in EBITDA are a) increased SG&A expenses attributable to the start-up of the Company's AN0C subsidiary b) lower gross profit (compared to the same period in 2010) for stevia sales.

| In thousands Canadian $ | 3 Months Ended Dec 31 | | Year Ended Dec 31 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Income (Loss) Before Income Taxes and Non-Controlling Interests | ($48,495) | ($2,527) | ($94,717) | ($2,563) |
| Add: | | | | |
| Provisions for inventories write-off | $29,714 | $0 | $29,714 | $0 |
| Provisions for receivables | $6,405 | $0 | $6,405 | $0 |
| Asset Impairment Losses | $0 | $0 | $12,189 | $0 |
| Net Interest Expense | $1,456 | $1,304 | $5,538 | $4,167 |
| Depreciation and Amortization | $3,362 | $2,964 | $10,503 | $10,394 |
| Foreign Exchange Loss (Gain) | $353 | $995 | $243 | $860 |
| Non-Controlling Interests | $898 | $2 | $4,643 | $19 |
| Non-Cash Share Compensation | $314 | $968 | $2,700 | $3,308 |
| EBITDA | ($5,992) | $3,706 | ($22,781) | $16,185 |
| EBITDA as a % of revenue | -1267% | 19% | -92% | 27% |

## EBITDA by Segment

Stevia business EBITDA for the three months ended December 31, 2011 was negative $3.6 million compared to $3.7 million in the same period last year. This decrease is driven by lower revenues and gross margin during the fourth quarter of 2011 compared to the fourth quarter of 2010. EBITDA for the stevia business for the twelve months ended December 31, 2011 was lower at negative $5.6 million compared to a positive $16.2 million for the comparable period in 2010.

EBITDA for the AN0C consumer products business was negative $2.4 million for the three months ended December 31, 2011 and negative $17.2 million for the twelve months ended December 31, 2011. EBITDA performance in the fourth quarter reflects the low revenue in the quarter which reflects the end of the peak season of beverage sales for RTD team and vitamin water products. AN0C Management substantially reduced the level of its advertising expenditures in the fourth quarter 2011 to better rationalize its marketing budget and reduce the EBITDA loss in the fourth quarter 2011. Marketing expenses were reduced by approximately $2.6 million (58% lower) compared with the third quarter 2011. The overall EBITDA loss for AN0C was reduced by $3.5 million (57% reduction) from the EBITDA loss incurred in the third quarter 2011.

| In thousands Canadian $ | 3 Months Ended Dec 31,2011 | | Year Ended Dec 31,2011 | |
|---|---|---|---|---|
| | Stevia Business | AN0C Consumer Products Business | Stevia Business | AN0C Consumer Products Business |
| Income (Loss) Before Income Taxes and Non-Controlling Interests | ($43,950) | ($4,545) | ($71,521) | ($23,196) |
| Add: | | | | |
| Asset Impairment Losses | $0 | $0 | $12,189 | $0 |
| Provisions for receivables | $6,370 | $35 | $6,370 | $35 |
| Provisions for inventories write-off | $28,628 | $1,087 | $28,628 | $1,087 |
| Net Interest Expense (Income) | $1,454 | $2 | $5,540 | ($2) |
| Foreign Exchange Loss (Gain) | $352 | $1 | $138 | $104 |
| Non-Controlling Interests | $0 | $898 | $0 | $4,643 |
| Depreciation and Amortization | $3,266 | $96 | $10,369 | $134 |
| Non-Cash Share Compensation | $314 | $0 | $2,700 | $0 |
| EBITDA | ($3,566) | ($2,426) | ($5,586) | ($17,195) |
| EBITDA as a % of revenue | (2003%) | (821%) | (33%) | (223%) |

## Summary of Quarterly Results

The selected consolidated information below has been gathered from GLG's quarterly consolidated financial statements for the previous eight quarterly periods:

| In thousands Canadian $, except per share amounts | 2011 Q4[1] | 2011 Q3[1] | 2011 Q2[1] | 2011 Q1[1] | 2010 Q4[2] | 2010 Q3[2] | 2010 Q2[1] | 2010 Q1[1] |
|---|---|---|---|---|---|---|---|---|
| Revenue | $473 | $1,740 | $15,213 | $7,414 | $19,300 | $20,951 | $10,468 | $8,209 |
| Gross Profit $ | ($2,732) | ($3,093) | $3,020 | $1,223 | $3,654 | $6,994 | $3,619 | $3,197 |
| Gross Profit % | (578%) | (178%) | 20% | 16% | 19% | 33% | 35% | 39% |
| Net income (Loss) | ($47,621) | ($24,628) | ($12,514) | ($5,752) | ($3,185) | $1,777 | ($278) | ($1,396) |
| Basic Income (Loss) Per Share | ($1.50) | ($0.74) | ($0.38) | ($0.20) | ($0.12) | $0.07 | ($0.01) | ($0.05) |
| Diluted Income (Loss) Per Share | ($1.50) | ($0.74) | ($0.38) | ($0.20) | ($0.12) | $0.07 | ($0.01) | ($0.05) |

1. Presented in conformity with US GAAP
2. Presented in conformity with Canadian GAAP.

Note: The Company operates in two reportable operating segments, being the manufacturing and selling of a refined form of stevia and has operations in Canada and China and the sale of consumer products in China.

## Quarterly Net Income (Loss)

For the three months ended December 31, 2011, the Company had a net loss attributable to the Company of $47.6 million compared to a net loss attributable to the Company of $3.2 for same period in 2010. The net

change of $44.4 million was driven by: (1) a decrease in gross profit of $6.5 million and (2) an increase in G&A expenses of $3.6 million, (3) an increase in accounts receivable provisions of $6.4 million and (4) an increase in other income and expenses of $29.4 million (including asset impairment charges of $29.7 million). These items were offset by the increase in loss attributable to non-controlling interests of $0.8 million and a decrease in income tax expense of $0.7 million.

For the three months ended September 30, 2011, the Company had a net loss attributable to the Company of $24.6 million compared to a net gain attributable to the Company of $1.8 for same period in 2010. The net change of $26.4 million was driven by: (1) a decrease in gross profit of $10.0 million and (2) an increase in G&A expenses of $6.5 million driven by the marketing and advertising costs for the start-up of its AN0C joint venture, (3) an increase in other income and expenses of 11.7 million (including asset impairment charges of $12.2 million). These items were offset by the increase in loss attributable to non-controlling interests of $1.5 million and an increase in income tax recovery of $0.3 million.

The Company had a net loss attributable to the Company of $12.5 million for the three months ended June 30, 2011, an increase of $12.2 million over the comparable period in 2010. The increase in net loss was driven by: (1) a decrease in gross profit of $0.6 million, (2) an increase in G&A expenses of $11.0 million mainly associated with the start-up of its AN0C joint venture, (3) an increase in interest expense and other income/expenses of $1.1 million, and (4) an increase of $1.5 million in income tax expense. These items were offset by the increase in loss attributable to non-controlling interests of $2.0 million.

The Company had a net loss attributable to the Company of $5.8 million for the three months ended March 31, 2011, an increase of $4.4 million over the comparable period in 2010. The increase in net loss was driven by: (1) a decrease in gross profit of $2.0 million, (2) an increase in G&A expenses of $2.8 million mainly associated with the start-up of its AN0C joint venture, and (3) an increase in interest expense and other income/expenses of $0.4 million. These items were offset by the increase in income tax recovery of $0.6 million and the increase in loss attributable to non-controlling interests of $0.2 million.

There was a net increase in loss of $3.7 million for the three months ended December 31, 2010 compared to the same period in 2009. This net loss was driven by: (1) a decrease in gross profit of $1.3 million, (2) an increase in G&A expenses of $0.3 million, (3) an increase in income tax expenses of $1.1 million, and (4) an increase in other income and expenses of $1.0 million.

The net income increased by $0.4 million to $1.8 million for the three months period ended September 30, 2010 in comparison to the net income of $1.4 million for the same period of 2009. This $0.4 million increase in income was driven by: (1) an increase in gross profit of $2.9 million, (2) decrease in income tax expense of $1.0 million which were offset by, (3) an increase of $1.3 million in general and administrative costs, and (4) a decrease of $2.2 million from foreign exchange gain.

The net loss was $0.3 million for the second quarter of 2010, which was an increase of $0.7 million in comparison to the net income of $0.4 million for the same period of 2009. This $0.7 million increase in loss was driven by: (1) a decrease in foreign exchange gain by $1.7 million, (2) an increase in general and administrative expenses by $1.2 million, and (3) an increase in interest expense by $0.2 million, which was partly offset by (4) an increase in gross profit in the second quarter 2010 ($2.0 million) and (5) an increase in income tax recovery ($0.4 million) compared to the second quarter of 2009.

The net loss was $1.4 million for the first quarter of 2010 which was a decrease of $0.1 million as compared with a loss of $1.5 million for the same period in 2009. The decrease in loss was driven by: (1) an increase in gross profit in the first quarter 2010 ($2.2 million) compared to the first quarter of 2009, which was partly offset by (2) higher provision for income taxes in the first quarter 2010 (an increase of $1.1 million), (3) an

increase in general and administrative expenses ($0.6 million) and (4) an increase in other expenses ($0.4 million).

## Quarterly Basic and Diluted Earnings (Loss) per Share

The basic loss and diluted loss per share was $1.50 for the fourth quarter of 2011 compared with a basic and diluted income per share of $0.12 for the same period in 2010. For the three months ended December 31, 2011, the Company had a net loss attributable to the Company of $47.6 million compared to a net loss attributable to the Company of $3.2 for same period in 2010. The net change of $44.4 million was driven by: (1) a decrease in gross profit of $6.5 million and (2) an increase in G&A expenses of $3.6 million, (3) an increase in accounts receivable provisions of $6.4 million and (4) an increase in other income and expenses of $29.4 million (including asset impairment charges of $29.7 million). These items were offset by the increase in loss attributable to non-controlling interests of $0.8 million and a decrease in income tax expense of $0.7 million.

The basic loss and diluted loss per share was $0.74 for the third quarter of 2011 compared with a basic and diluted income per share of $0.06 for the same period in 2010. For the three months ended September 30, 2011, the Company had a net loss attributable to the Company of $24.6 million. The net change of $26.4 million was driven by: (1) a decrease in gross profit of $10.0 million and (2) an increase in G&A expenses of $6.5 million driven by the marketing and advertising costs for the start-up of its AN0C joint venture, (3) an increase in other income and expenses of 11.7 million (including asset impairment charges of $12.2 million). These items were offset by the increase in loss attributable to non-controlling interests of $1.5 million and an increase in income tax recovery of $0.3 million.

The basic loss and diluted loss per share was $0.38 for the second quarter of 2011 compared with a basic and diluted loss per share of $0.01 for the same period in 2010. For the three months ended June 30, 2011, the Company had a net loss attributable to the Company of $12.5 million, an increase of $12.2 million over the comparable period in 2010. The increase in net loss was driven by: (1) a decrease in gross profit of $0.6 million, (2) an increase in G&A expenses of $11.0 million driven by the marketing and advertising costs for the start-up of its AN0C joint venture, (3) an increase in interest expense and other income/expenses of $1.1 million, and (4) an increase of $1.5 in income tax expense. These items were offset by the increase in loss attributable to non-controlling interests of $2.0 million.

The basic loss and diluted loss per share was $0.20 for the first quarter of 2011 compared with a basic and diluted net loss of $0.05 for the same period in 2010. The Company had a net loss attributable to the Company of $5.8 million, an increase of $4.4 million over the comparable period in 2010. The increase in net loss was driven by: (1) a decrease in gross profit of $2.0 million, (2) an increase in G&A expenses of $2.8 million mainly associated with the start-up of its AN0C joint venture, and (3) an increase in interest expense and other income/expenses of $0.4 million. These items were offset by the increase in income tax recovery of $0.6 million and the increase in loss attributable to non-controlling interests of $0.2 million.

The basic loss and diluted loss per share was $0.12 for the fourth quarter of 2010 compared with a basic net income per share of $0.02 and a diluted net income per share of $0.02 for the same period in 2009. The decrease in earnings per share were driven by: (1) a decrease in gross profit of $1.3 million, (2) an increase in G&A expenses of $0.3 million, (3) an increase in income tax expenses of $1.1 million, and (4) an increase in other income and expenses of $1.0 million.

The basic income and diluted income per share was $0.07 for the third quarter of 2010 compared with a basic net income per share of $0.07 and a diluted net income per share of $0.06 for the same period in 2009. The

increase in earnings per share was driven by: (1) an increase in gross profit of $2.9 million, (2) a decrease in income tax expense of $1.0 million which were offset by, (3) an increase of $1.3 million in general and administrative costs, and (4) a decrease of $2.2 million from foreign exchange gain.

The basic loss and diluted loss per share was $(0.01) for the second quarter of 2010 compared with a basic and diluted net income per share of $0.02 for the same period in 2009. The increase in loss per share for the second quarter 2010 was driven by: (1) an increase in general and administrative expenses and (2) a decrease in foreign exchange gain, which was partially offset by (3) an increase in gross profit in the second quarter 2010 and an increase in income tax recovery compared to the second quarter of 2009.

The basic loss and diluted loss per share was $(0.05) for the first quarter of 2010 compared with a loss per share of $(0.08) for the comparable period in 2009. The decrease in loss per share for the first quarter 2010 compared to the first quarter of 2009 was driven by: (1) an increase in gross profit in the first quarter 2010 compared to the first quarter of 2009, which was offset by (2) higher provision for income taxes in the first quarter 2010, (3) an increase in general and administrative expenses and (4) an increase in other expenses.

The basic earnings per share were $0.02 for the fourth quarter 2009 compared with $0.07 for the basic earnings per share for the third quarter of 2009. The decline in earnings per share for the fourth quarter compared to the third quarter of 2009 can be attributed to: (1) increased number of shares in the fourth quarter due to the NASDAQ public offering of 3.2 million common shares completed in November 2009 ($0.01 per share impact on Q4 EPS result), and (2) a decrease in the fourth quarter net income compared to the third quarter of $0.9 million ($0.04 per share decline in Q4 EPS).

The decrease of $0.9 million in the fourth quarter net income compared to the third quarter can be accounted for as follow: (1) a decrease in foreign exchange gains ($2.5 million reduction) relative to the third quarter; and (2) an increase in SG&A expense of $0.6 million in the fourth quarter relative to the third quarter, which was partially offset by (3) higher gross profit in the fourth quarter ($0.8 million improvement) relative to the third quarter; (4) a higher income tax recovery recognized in the fourth quarter ($1.2 million improvement) relative to the third quarter; and (5) a decrease in interest expense of $0.2 million.

## Capital Expenditures

| In thousands Canadian $ | 3 Months Ended Dec 31 | | % Change | Year Ended Dec 31 | | % Change |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | | 2011 | 2010 | |
| **Capital Expenditures** | $397 | $1,463 | (73%) | $7,578 | $11,920 | (36%) |

GLG's capital expenditures of $0.4 million for the fourth quarter of 2011 reflected a decrease of 73% in comparison to $1.5 million in the fourth quarter of 2010. Expenditures for the twelve months were $7.6 million compared to $11.9 million for the same period in 2010, a decrease of 36%. In 2011, the main asset additions were for stevia distillation equipment, the waste water treatment plant, production storage, and security equipment.

## Liquidity and Capital Resources

| In thousands Canadian $ | 31-Dec-11 | 31-Dec-10 |
|---|---|---|
| Cash and Cash Equivalents | $4,487 | $23,817 |
| Working Capital | ($9,801) | $7,081 |
| Total Assets | $233,780 | $281,407 |
| Total Liabilities | $103,375 | $129,399 |
| Loan Payable (<1 year) | $70,574 | $100,131 |
| Loan Payable (>1 year) | $0 | $0 |
| Total Equity | $130,404 | $152,009 |

## Cash Flows: Three months ended December 31, 2011 and 2010

**Cash used by operating activities** was $3.1 million in the three month period ended December 31, 2011 compared to $4.7 million used in the same period of 2010. Cash generated by operating activities was impacted by lower sales and gross profit and higher SG&A expenses associated with its AN0C joint venture for the quarter ended December 31, 2011 compared to the same period for 2010. This was offset by a positive $6.2 million contribution from non-cash working capital requirements in the three month period ended December 31, 2011 relative to the $6.2 million non-cash working capital used in the 2010 comparable period. The $12.5 million dollar increase in cash provided from non-cash working capital in the three months ended December 31, 2011 compared to the comparative 2010 period, was due to changes in (1) the net decrease in working capital requirements from accounts receivable of $15.7 million, (2) the net decrease in working capital requirements from inventory of $8.9 million, and (3) increases in accounts payable and interest payable of $3.1 million and the net decrease in working capital requirements from taxes receivable of $0.9 million. These were partially offset by, (4) the net reduction in other items of $0.5 million (5) the net reduction in prepaid of $15.7 million.

**Cash used by investing activities** was $1.8 million during the fourth quarter of 2011, compared to cash used by investing activities of $1.8 million in the same period in 2010.

**Cash used by financing activities** was $1.5 million in the fourth quarter of 2011 compared to cash generated of $4.2 million in the same period in 2010. The increase of cash used by $5.7 million was driven by (a) the net decrease of cash from short term loans of $3.2 million, (b) a net decrease of cash from advances from related parties by $2.6 million, (c) an increase in cash provided from customer advances of $0.2 million.

## Cash Flows: Twelve months ended December 31, 2011 and 2010

**Cash used by operating activities** was $33.0 million in the twelve month period ended December 31, 2011 compared to $28.6 million used in the same period of 2010. This decrease in cash generated by operating activities can be attributed to the lower revenues, lower gross profit and higher SG&A expenses associated with its AN0C joint venture for the twelve months ended December 31, 2011 compared to the same period for 2010. These uses of cash were offset by a reduction in non-cash working capital requirements in the twelve

months ended December 31, 2011 ($0.7 million) relative to the non-cash working capital used in the 2010 comparable period ($39.2 million). The $39.9 million dollar decrease in cash used from non-cash working capital in the twelve months ended December 31, 2011 compared to the comparative period in 2010, was due to changes in, (1) the net change in accounts receivable of $44.1 million and (2) the increases in accounts payable of $5.4 million (3) the net decrease of taxes recoverable of $0.7 million and (4) $0.1 million in deferred revenues. These were offset by (5) the net increase in prepaid expenses of $4.8 million (6) the net increase in inventory of $4.6 million, (7) the net decreases in taxes payable of $0.6 million, and (8) the net decrease in interest payable of $0.3 million.

**Cash used by investing activities** was $9.0 million during the first nine months of 2011, compared to cash used by investing activities of $14.9 million in the same period in 2010. In 2011, the major asset additions were for stevia distillation equipment, the waste reduction plant at Runhai, storage for liquid production at Runyang, security equipment, and for the cafeteria at Runhao.

**Cash generated by financing activities** was $20.9 million in the twelve months ended December 31, 2011 compared to $50.9 million in the same period in 2010. The decrease of $30.0 million was driven by a) the net decrease of cash from short term loans of $84.9 million, (b) a net decrease of cash from loans to related parties by $5.3 million, (c) a net reduction of cash received from exercising stock options of $1.3 million, which were offset by; (d) $54.2 million of cash provided by the issuance of common shares, (e) an equity contribution by a non-controlling interest of $6.8 million, and (f) cash provided from an increase in customer advances of $0.6 million.

## Financial Resources

Cash and cash equivalents decreased by $19.3 million during the twelve months ended December 31, 2011. Working capital decreased to negative $9.8 million from the year-end 2010 position of positive $7.1 million. The working capital decrease can be attributed to reductions in cash, and accounts receivable, an increase in advances from customers and an increase in accounts payable which were offset by an increase in inventory, prepaid expenses, taxes recoverable and a net repayment of short term loans.

The Company's working capital and working capital requirements fluctuate from quarter to quarter depending on, among other factors, the annual stevia harvest in China (third and fourth quarter each year), the production output along with the amount of sales conducted during the period. The value of raw material in inventory has historically been the highest in the fourth quarter due to the fact that the Company purchases leaf during the third and fourth quarter for the entire production year which runs October through September each year. The Company's principal working capital needs include accounts receivable, taxes receivable, inventory, prepaid expenses, and other current assets, and accounts payable and interest payable.

## Balance Sheet

In comparison to December 31, 2010, total assets decreased by $47.6 million as at December 31, 2011, primarily due to a decrease in current assets of $36.1 million and a decrease in capital assets goodwill and intangible assets of $15.4 million. The decrease in the current assets was mainly driven by the following:

1. increase of $3.4 million in inventory.
2. Increase in taxes recoverable of $2.0 million, which can be attributed to refundable VAT taxes on the increase in inventory.
3. Increase in prepaid expenses of $2.2 million, which was driven by both prepayments for AN0C production to contracted OEM bottlers and stevia leaf prepayments.

   These were offset by:

4. Decrease of $24.4 million accounts receivable due to the collection of cash in 2011 as well as a provision accounts doubtful accounts of $6.4 million.
5. Decrease in cash and cash equivalents of $19.3 million resulting primarily from the AN0C start-up and operations investment and net repayments of short term loans

The increase in property plant, and equipment of $3.9 million in the fixed assets was due primarily to the strengthening of the RMB against the Canadian dollar partially offset by amortization of these assets. The decrease in goodwill and intangibles of $15.4 million was primarily due to the impairment charges recorded during the third quarter of 2011 (see section asset impairment charges).

Current liabilities decreased by $19.2 million as at December 31, 2011 in comparison to December 31, 2010, driven by a net decrease in short term loans of $29.6 million and a decrease in interest payable of $0.2 million. This was partially offset by the increase of accounts payable of $9.7 million and increases to advances from customers and deferred revenue totaling $0.9 million.

Long term liabilities decreased by $6.8 million due to the reduction of the related party loan which was repaid with the cash collection from accounts receivable, as well as the decrease in the deferred income tax liability.

Shareholders' equity decreased by $21.6 million due to a) the issuance of common shares for the equity financing and stock based compensation of $57.9 million b) the increase in accumulated other comprehensive income of $8.8 million, c) an increase in deficit of $90.5 million, and d) an increase in non-controlling interests of $2.2 million.

## China Lines of Credit and Short Term Loans

As at December 31, 2011, the Company's short term loans consisted of borrowings from private lenders and from four banks in China as follows:

**Short term borrowing from a private lender as at December 31, 2011 and 2010**

| | | Loan amount in CAD | Loan amount in USD | Maturity Date | Interest rate | Lender |
|---|---|---|---|---|---|---|
| December 31, 2011 | $ | 549,180 | 540,000 | October 9, 2012 | 8.00% | Private lender |

| | | Loan amount in CAD | Loan amount in USD | Maturity Date | Interest rate | Lender |
|---|---|---|---|---|---|---|
| December 31, 2010 | $ | 537,084 | 540,000 | October 9, 2011 | 8.00% | Private lender |

**Short term bank loans as at December 31, 2011**

| Loan amount in C$ | Loan amount in RMB | Maturity Date | Interest rate per annum | Lender |
|---|---|---|---|---|
| $ 484,801 | 3,000,000 | July 28, 2012 | 7.71% | Agricultural Bank of China |
| 4,524,814 | 28,000,000 | July 28, 2012 | 7.71% | Agricultural Bank of China |
| 1,616,005 | 10,000,000 | April 18, 2012 | 7.71% | Agricultural Bank of China |
| 1,616,005 | 10,000,000 | March 28, 2012 | 7.71% | Agricultural Bank of China |
| 9,696,029 | 60,000,000 | June 9, 2012 | 6.81% | Agricultural Bank of China |
| 3,232,010 | 20,000,000 | June 16, 2012 | 6.81% | Agricultural Bank of China |
| 12,928,039 | 80,000,000 | June 20, 2012 | 6.81% | Agricultural Bank of China |
| 2,747,208 | 17,000,000 | July 25, 2012 | 7.08% | Agricultural Bank of China |
| 4,848,015 | 30,000,000 | December 17, 2011 | 6.06% | Construction Bank of China |
| 3,005,625 | 18,599,111 | December 23, 2011 | 6.06% | Construction Bank of China |
| 16,160,049 | 100,000,000 | Dec 17, 2011 | 7.98% | Bank of Communication |
| 2,541,976 | 15,730,000 | Dec 23, 2011 | 7.87% | CITIC Bank |
| 3,232,010 | 20,000,000 | August 26, 2012 | 7.22% | Bank of China |
| 645,254 | 3,992,894 | September 29, 2012 | 7.22% | Bank of China |
| 2,747,208 | 17,000,000 | December 1, 2012 | 7.54% | Huishang Bank |
| $ 70,025,049 | 433,322,005 | | | |

**Short term bank loans as at December 31, 2010**

| Loan amount in C$ | Loan amount in RMB | Maturity Date | Interest rate per annum | Lender |
|---|---|---|---|---|
| $ 9,054,000 | 60,000,000 | January 11, 2011 | 5.31% | Construction Bank of China |
| 3,018,000 | 20,000,000 | March 18, 2011 | 5.31% | Construction Bank of China |
| 4,527,000 | 30,000,000 | March 23, 2011 | 5.31% | Construction Bank of China |
| 3,018,000 | 20,000,000 | May 24, 2011 | 5.56% | Agricultural Bank of China |
| 9,054,000 | 60,000,000 | June 17, 2011 | 5.56% | Agricultural Bank of China |
| 4,527,000 | 30,000,000 | June 22, 2011 | 5.40% | Construction Bank of China |
| 4,527,000 | 30,000,000 | June 28, 2011 | 6.12% | CITIC Bank |
| 3,018,000 | 20,000,000 | June 29, 2011 | 5.56% | Agricultural Bank of China |
| 9,054,000 | 60,000,000 | July 2, 2011 | 5.40% | Agricultural Bank of China |
| 15,090,000 | 100,000,000 | July 27, 2011 | 5.59% | Bank of Communication |
| 2,565,300 | 17,000,000 | July 29, 2011 | 5.56% | Agricultural Bank of China |
| 3,018,000 | 20,000,000 | August 5, 2011 | 6.02% | CITIC Bank |
| 15,090,000 | 100,000,000 | August 25, 2011 | 5.63% | Bank of Communication |
| 3,018,000 | 20,000,000 | August 30, 2011 | 5.56% | Agricultural Bank of China |
| 3,018,000 | 20,000,000 | September 14, 2011 | 6.12% | CITIC Bank |
| 1,509,000 | 10,000,000 | September 28, 2011 | 5.56% | Agricultural Bank of China |
| 1,509,000 | 10,000,000 | October 18, 2011 | 5.56% | Agricultural Bank of China |
| 452,700 | 3,000,000 | October 28, 2011 | 5.56% | Agricultural Bank of China |
| 4,527,000 | 30,000,000 | October 28, 2011 | 5.56% | Agricultural Bank of China |
| $ 99,594,000 | 660,000,000 | | | |

During the year, the Company repaid loans totaling $99,594,000 (660,000,000 RMB) and renewed loans totaling $70,025,049 (433,332,005 RMB). The repaid loans were held by the Bank of Communication in China, the Agricultural Bank of China, and the CITIC Bank and had interest rates ranging from 5.31%-6.12% per annum.

Two loans due to Construction Bank of China matured were payable on December 17, 2011 and December 23, 2011, respectively. Certain loans due to Bank of Communication, CITIC Bank and Agricultural Bank of China matured subsequent to year end and were payable on February 25, 2012, February 13, 2012 and March 28, 2012 respectively. These loans were not repaid on the maturity dates and are currently payable and classified on the balance sheet as current liabilities. The banks did not demand repayments on the loans, and the Company is currently in discussion with these banks to renew the loans. The Company believes the loans will be extended with scheduled repayments on dates later in 2012.

The assets of the Company's subsidiaries have been pledged as collateral for the short term bank loans. Land of two subsidiaries has also been used as collateral for the above facilities.

As part of the collateral agreement with CITIC Bank loan, a third party monitor is in place at one of GLG's subsidiaries to monitor inventory collaterals. The Company maintains access to its inventory at this subsidiary.

## Financial and Other Instruments

The Company's financial instruments comprise cash and cash equivalents and restricted cash, classified as "held-for-trading", accounts receivable and certain other assets that are financial instruments, classified as "loans and receivables", and short term loans, accounts payable, interest payable, advance from customer, due to related party, and non- current bank loan, classified as "other financial liabilities". The Company currently does not have any hedge instruments.

As at December 31, 2011, the Company recorded cash and cash equivalents at fair value. Recorded amounts for accounts receivable, accounts payable and accrued liabilities, short term loans, interest payable, advances from customers, and due to related party approximate their fair values due to the short‐term nature of these instruments.

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company's primary credit risk is on its cash and cash equivalents, restricted cash and accounts receivable.

The Company limits its exposure to credit risk by placing its cash and cash equivalents with various financial institutions. Given the current economic environment, the Company monitors the credit quality of the financial institutions it deals with on an ongoing basis.

In the stevia segment the Company has a high concentration of credit risk as the accounts receivable was owed by fewer than ten customers. However, the Company believes that it does not require collateral to support the carrying value of these financial instruments. The carrying amount of financial assets represents the maximum credit exposure. The Company reviews financial assets, including past due accounts, on an ongoing basis with the objective of identifying potential events or circumstances which could delay or prevent the

collection of funds on a timely basis. Based on default rates on customers with receivable balances at December 31, 2011, the Company believes that there are minimal requirements for an allowance for doubtful accounts against its accounts receivable.

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of a change in foreign exchange rates. The Company conducts its business primarily in US dollars, RMB, Canadian dollars and Hong Kong dollars. The Company is exposed to currency risk as the functional currency of its subsidiaries is other than Canadian dollars.

The majority of the Company's assets are held in subsidiaries whose functional currency is the RMB. The RMB is not a freely convertible currency. Many foreign currency exchange transactions involving RMB, including foreign exchange transactions under the Company's capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration of Foreign Exchange. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. The Company cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into Canadian dollars of the Company's net assets and net profits. The Company cannot give any assurance that any future movements in the exchange rates of RMB against the Canadian dollar and other foreign currencies will not adversely affect its results of operations, financial condition and cash flows. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

All of the Company's operations in China are considered self-sustaining operations. The assets and liabilities of the self-sustaining operations are translated at exchange rates prevailing at the balance sheet date.

As of December 31, 2011, assuming that all other variables remain constant, a change of 1% in the Canadian dollar against the RMB would have an effect on other comprehensive income of approximately $3.3 million (2010 – $1.3 million).

The Company's USA operations and Canadian operations are primarily exposed to exchange rate changes between the US dollar and the Canadian dollar. The Company's primary US dollar exposure in Canada relates to the revaluation into Canadian dollars of its US dollar denominated working capital.

As of December 31, 2011, assuming that all other variables remain constant, an increase of 1% in the Canadian dollar against US dollar would have an effect on net income of approximately $0.04 million (2010 - $0.02 million).

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. It is the Company's intention to meet these obligations through the collection of accounts receivable, receipts from future sales, current cash and cash equivalents, short term investments, available lines of credit in China and possible issuance of new equity or debt instruments.

The Company is dependent on obtaining regular financings in order to continue its expansion programs and repay amounts due under current short term loans. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings on terms acceptable to the Company.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents, restricted cash, short term bank loans, and due to related party at December 31, 2011. The interest rates on these financial instruments fluctuate based on the bank prime rate. As at December 31, 2011 with other variables unchanged, a 100-basis point change in the bank prime rate would have a net effect of approximately $0.7 million (2010 – $0.8 million) on net income (loss).

## Contractual Obligations

(a) The Company renewed two 5-year operating lease with respect to land and production equipment at the Qingdao factory in China. The lease expires in 2016, and the annual minimum lease payments are approximately $162,000 (RMB 1,000,000)

(b) The Company entered into a 30-year agreement with the Dongtai City Municipal Government, located in the Jiangsu Province of China, for approximately 50 acres of land for its seed base operation. Rent of $128,600 (RMB790,000) is paid every 10 years.

(c) The Company entered into a 5-year agreement for office premises beginning June 1, 2011. The annual minimum lease payments are approximately $142,000.

(d) The Company entered into a 2-year agreement for office premises beginning April 2011, located in the Anhui Province of China. The annual minimum lease payments are approximately $188,000 (RMB1,163,216) per year.

(e) The Company entered into various one year lease agreements for regional sales offices, throughout China. The annual minimum lease payments are approximately $96,000 (RMB 593,978) per year.

(f) The Company entered into various marketing and promotional short term contracts to support the consumer business promotional campaigns. The total commitment as of December 31, 2011 is $201,000 (RMB 1.248,000)

(g) In April 2008, the Company signed a 20 year agreement with the government of Juancheng County in the Shandong Province of China, which gave exclusive rights to build and operate a stevia processing factory as well as the exclusive right to purchase high quality stevia leaf grown in that region. The agreement requires the Company to make a total investment in the Juancheng region of $61,019,000 (US$60,000,000) over the 20 year life of the agreement to retain its exclusive rights. As of December 31, 2011, the Company had not made any investment in the region.

The minimum operating lease cash payments related to the above are summarized as follows:

| In thousands Canadian $ | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter |
|---|---|---|---|---|---|---|
| Operating Leases | $721 | $421 | $309 | $310 | $224 | $256 |

## Capital Structure

Outstanding Share Data as at August 14, 2012

| | Shares |
|---|---|
| Common Shares Issued | 32,915,634 |
| Reserved For Issuance | |
| Warrants | 2,727,400 |
| Stock Options | 267,653 |
| Total Reserved For Issuance | 2,995,053 |
| Fully Diluted Shares | 35,910,686 |

## Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements.

## Transactions with Related Parties

In addition to the transactions disclosed elsewhere in these consolidated financial statements, the Company has agreements with Grand Leaf Ltd. ("Grand Leaf"), PALCO International Inc. ("PALCO"), GLG International Development Company ("GLG International"), AAFAB Corporation ("AAFAB") and BISM Ltd. ("BISM") for executive and management consulting services. These Companies are related as they are owned by either current or former senior officers and directors of the Company.

The amount of these transactions and outstanding balances as at September 30, 2011 are as follows:

During the year ended December 31, 2011, the Company paid or accrued consulting fees totaling $455,708 (2010 - $367,148) for the services provided by Grand Leaf. As at December 31, 2011, there was nil (2010 - $367,148) payable to Grand Leaf.
During the year ended December 31, 2011, the Company paid or accrued consulting fees of nil (2010 - $127,153) and $35,496 (2010 - $61,929) to PALCO and AAFAB respectively. As at December 31, 2011 and December 31, 2010 there was nil payable to both PALCO and AAFAB.
During the year ended December 31, 2011, the Company paid or accrued consulting fees totaling $63,670 (2010 - $65,408) to BISM. As at December 31, 2011 and December 31, 2010 there was nil payable to BISM.

During the year ended December 31, 2011, the Company paid or accrued management fees totaling $400,000 (2010 - $400,000) to GLG International. As at December 31, 2011 there was $400,000 (December 31, 2010 - $400,000) included in accounts payable to GLG International.

During the year ended December 31, 2009, the Company obtained loans totaling US $6,892,000 from the Company's Chief Executive Officer (Lender). The loans bore interest at the US dollar prime rate posted by the Bank of Canada plus 3% per annum. The Company used the loan proceeds for corporate working capital purposes and to fund the required initial investment in the Runhao subsidiary in China. The Company also obtained two loans from the Lender in the amounts of US $1,500,000 and $700,000 respectively during the year ended December 31, 2010. The loans bore interest at the US dollar prime rate posted by the Bank of Canada plus 4% per annum and had maturity dates of December 1, 2012 and December 23, 2012. These loans were repaid with interest from cash flow from operations in the year ended December 31, 2011.

During the year ended December 31, 2010, the Company obtained a US $100,000 loan from a company controlled by a director of the Company. The loan bore interest at the US dollar prime rate posted by the Bank of Canada plus 3% per annum and matured June 9, 2011. This loan was repaid with interest in the year ended December 31, 2011.

## Market and Key Markets Outlook

**Market Drivers for Stevia**

Stevia benefits from increased concern about the role of sugar in causing obesity and diabetes and the widespread consumer belief that all-natural products are healthier than artificial products, particularly in the sweetener industry where artificial high-intensity sweeteners have been subject to consumer health risk concerns.

Datamonitor reported that research by the Natural Marketing Institute (NMI) suggests a growing wariness for artificial sugar replacers in the US. Over half of respondents are concerned about the negative side effects of artificial sweeteners. In a recent online survey conducted by The Globe and Mail, over 1,700 respondents voted on the question "What's your stance on artificial sweeteners?". Over half of the respondents voted "They're unhealthy – I'll never use them". Growing consumer preference for all-natural products, together with increasing rates of obesity and diabetes, have created significant demand for an all-natural, zero-calorie sweetener alternative.

Stevia's advantages are that it has zero calories, is 100% natural and thus perceived as healthier than artificial sweeteners, remains stable under heat and thus can be utilized in processed foods, is 200 to 300 times sweeter than sugar, and measures zero on the glycemic index, which is important in the diabetic market and benefits from growing consumer understanding of the value of a low glycemic diet. Food and beverage companies are formulating and launching new products in response to consumer demand and we believe stevia provides a solution that fits within consumer expectations for taste and health benefits.

According to Datamonitor, approximately 630 products sweetened with high purity stevia were launched around the world from October 2010 to September 2011, with US accounting for more than 300 products. Mintel's August 2011 report entitled Stevia *and Natural Sweeteners - US*, reported that 75% of stevia-sweetened products launched in the United States since 2006 were beverages. Leading global food and beverage companies such as The Coca Cola Company, Cargill, PepsiCo and Merisant Company have all launched products containing stevia.

According to Koncept Analytics, regionally Japan is the largest consumer of stevia, accounting for over half of the global stevia sweetener market. Stevia holds over 40% of the Japanese sweetener market, with widespread use in a variety of products, including pickles, dried seafood, soy sauce, meat, seasonings, beverages and yogurt, ice cream, confectionaries and as tabletop sweetener. Following approval as a sweetener in the USA in 2008, in an August 2011 report published by Mintel, US retail sales of products containing stevia, including tabletop sweeteners and food and beverage products, could reach US$1.2 billion by the end of 2013, almost double from an estimated US$610 million in 2011.

Although there is still consumer confusion over the meaning of a "natural" sweetener, stevia-sweetened drinks have found success in several developed markets and the Company expects that they will drive much of the future growth in zero calorie soft drinks. Zenith International estimated that worldwide sales of stevia reached US$285 million in 2010, a 27% increase over 2009. Zenith further forecasts the global market for stevia to grow to 11,000 metric tonnes by 2014, equivalent to US$825 million by value

World sugar prices remained in the range $600 to $800 per tonne throughout 2011. There are a number of conflicting forecasts for sugar moving forward. Some analysts expect a surplus in 2012 and lower sugar prices and others see relatively stable sugar prices in their current range. OECD-FAO expects sugar prices to remain on a higher plateau and to average higher in real terms (when adjusted for inflation) through to 2020 when compared with the last decade. .Severe weather (particularly drought) could lead to an increase in sugar prices. A Reuters poll in July 2012 forecast NYSE Liffe white sugar futures at $595 a tonne at the end of 2012. Higher sugar prices will usually facilitate food and beverage companies interest in stevia when it can offer not only a zero calorie natural sweetener benefit but also a lower relative cost.

The stevia industry will remain very competitive with new entrants expected to continue to enter the market. Key barriers to achieving complete vertical integration include the time to develop a naturally bred high rebaudioside A seed or seedlings, scale, efficient extraction technology, and formulation knowledge in working with stevia in food and beverage applications. Agriculture and availability of leaf supply is expected to be reduced in 2012 from the levels seen in 2011 and the industry as a whole may face a shortage of leaf to meet the expected growing demand in the later part of 2012.

**<u>GLG's International Stevia Sales Business Outlook</u>**

We sell our high-grade stevia extract directly to a number of customers (including large food/beverage companies, food ingredient companies, and flavour houses) internationally. Additionally, we have partnered with distributors that resell GLG's products in a number of markets globally. The Company currently has over 20 distributors and/or agents marketing its products globally. The Company now has distribution agreements in Australia, New Zealand, Mexico, South America, Central America, India, Europe, China, Japan, Korea and the US.

GLG's international stevia business sales team is based in Vancouver and is focused on supporting our regional distributors as well as direct relationships with food and beverage companies. GLG has doubled the number of their distributors and has also added sales agents in some key markets to drive sales in 2012. GLG's China and Asian stevia sales team is based in Shanghai and Qingdao. This team targets both end customers as well as regional distributor sales support.

Our notable sales wins to date in 2012 include:

- Global tabletop sweetener company
- Global food service company
- Global pharmaceutical company
- Global dairy company
- International flavor house
- North American Ready To Drink beverage company
- South American sweetener company
- European water company
- European consumer packaged goods company

• European ice cream company

As well as direct sales to other stevia extract providers.

Examples of new products launched by GLG's customers include: flavoured water and fruit filling in Europe, multiple stevia-sweetened beverages in the US, powdered blends and power bars in Europe, a tabletop applications in The US, Europe and South America, a beverage in Latin America, two flavoured milks in Asia Pacific and additional multiple beverage applications in Asia-Pacific region.

Gross profit margins are expected to improve as the Huinong 3 ("H3") proprietary leaf variety is in use by the Company starting in late 2012. The H3 plant variety has already been harvested in 2011 and tested in GLG primary processing plants that confirmed plant size, RA content and expected yield results in our primary processing facility. H3 is expected to deliver reduced stevia leaf processing costs starting in the fourth quarter 2012. The H3 plant variety have approximately 76% RA in the plant leaf, which is 26% higher than the first generation (H1) seeds, and will generate 46% more leaf per acre than the earlier H1 plants as well. Huinong 4 ("H4") is currently available for planting, which is expected to provide GLG with a significant cost reduction in its production of high-purity stevia extracts in the future. H4 results show a 16% increase in leaf yield over the H3 plants, while maintaining a similar 76% RA content.

**AN0C Stevia Solutions**

Our experience with formulating AN0C consumer products in China has started to positively influence the other markets where we operate. For example, the Company is able to demonstrate its success in formulating all-natural zero-calorie drinks through its current AN0C products to international food and beverage customers. A key new initiative that has generated significant interest in our international stevia business and that we expect will increase the speed at which food and beverage customers will launch products is our AN0C Stevia Solutions Company. Through this new company, we are providing turn-key formulations for our beverage and food products to international food and beverage companies. We are currently working on opportunities worldwide.

New formulation development includes beverages, candy, jelly, egg rolls, jam, biscuits, bread, cakes, baked goods, preserved foods, snack food, stevia tablets and stevia chewing gum. The AN0C Stevia Solutions team has also formulated Dream Sweetener, which is a "plug and play" solution that has overcome many of the traditional disadvantages of working with stevia extracts.

**GLG's China Operations**

The Company believes that China presents one of the largest market opportunities for its high-grade stevia products and in consumer products containing stevia, due to increasing household disposable income and increasing health- consciousness.

Government policy in China has started to come into place to support the replacement of sugar with stevia. The Capital Municipal Health Bureau in Beijing is focusing on decreasing student obesity rates through a variety of new initiatives including ensuring healthier foods and drinks to be served at the schools. During the 2009-2010 academic year in Beijing, government statistics show that there is on average one in five students of Beijing primary and secondary schools that is over-weight and the overall trend of childhood obesity has increased significantly in the past few years.

In July 2011, the Beijing News reported that the Beijing Municipal Health Bureau announced a five-year primary and secondary school prevention plan targeting childhood obesity. Under the plan, it is expected that within 5 years, 80% of primary and secondary schools will have established an intervention plan that targets obese children and initiate an early prevention program of adult obesity diseases. The plan will begin with primary and secondary schools in Beijing establishing "student obesity intervention tactics", with school food and beverages monitored at least twice a year.

Preliminary estimates by the National Bureau of Statistics of China (NBSC) show GDP grew 9.2% year-on-year in 2011 vs 10.4% in 2010. In October 2011, the International Monetary Fund forecasted China's GDP is expected to grow by 9% in 2012, with private domestic consumption as one of the main drivers. The Economist Intelligence Unit (EIU) forecasts China's real GDP to grow an average of 7.3% per year from 2011 to 2020, and anticipates China's nominal GDP to overtake the US to become the largest economy in the world by 2021. The EIU expects consumer prices to rise by 4.1% a year on average from 2012 to 2016, and the threat of a surge in food prices poses upside risks to inflation.

According to the NBSC, both the per capita disposable income of urban households and the per capita income of rural households continued to increase, with 2011 recording a real growth of 8.4% and 11.4%, respectively. The People's Bank of China (PBC) has stated that it will continue to implement prudent monetary policy and promote stable economic development. NBSC reported that in 2011, China's consumer price index increased by 5.4%, with prices for food seeing the largest increase of 11.8%. According to NBSC, China's urban population exceeded its rural population for the first time by the end of 2011.

**AN0C Consumer Business**–

The introduction of the AN0C consumer products had the effect of increasing interest in sweetening food and beverages with stevia. The Chinese media are publicizing the dangers of consuming too much sugar, while governments are proposing and implementing policies such as the Municipal Capital Health Bureau targeting healthier foods and beverages in schools in Beijing to reduce childhood obesity.

Healthier beverages and food is a trend that is common throughout China. According to Euromonitor, sales growth of traditional carbonates has slowed because of its unhealthy image, even as herbal drinks and flavours are on the rise. Herbal/medicinal tea is believed to cool internal body heat during hot summer weather, treat sore throats and other ailments caused by winter dryness, and are better at quenching thirst. In its "Carbonated Soft Drinks – China – March 2012" report, Mintel reported that with obesity on the rise in China, consumers are increasingly trying to adopt a healthier lifestyle such as minimizing the intake of artificial ingredients and exercising more. Manufacturers have emphasized more on the functional or healthy features of their products, such as low sugar, low calorie content, added vitamins, or being free of additives.

Based on Euromonitor data, the compounded annual growth rate for the soft drinks market (aggregation of categories such as Carbonates, Fruit/vegetable juice, Bottled water, Functional drinks, Concentrates, RTD tea, RTD coffee and Asian specialty drinks) in China is forecasted at 9.5% per year from 2010 to 2015. Euromonitor forecasts the Chinese soft drinks market in 2012 to reach 67.8 billion litres, or a 10.5% increase over 2011, with the RTD tea category expected to see the largest increase of 16.6% year-over-year. In February 2011, Euromonitor also reported that China's per capita consumption of soft drinks in 2010 was only 46 litres, or just over half of the global average of 80 litres, and less than 14% of the US per capita consumption of 340 litres. Chinese per capita consumption of soft drinks in 2011 increased to 48 litres.

Based on Euromonitor data, China's soft drinks industry has become increasingly consolidated over the last five years, as the market share of the top five players by volume has increased from 33% in 2006 to 43% in 2011. The largest players in the Chinese soft drinks market includes both multinational beverage companies, such as Coca-Cola and PepsiCo who dominate the carbonated category, as well as domestic brands like Master Kong (owned by Tingyi), Wahaha, and Uni-President who are stronger in the RTD tea and bottled water categories. Overall, Coca-Cola holds the largest market share in 2011, with 15.8%, and Tingyi is second with 13.1% market share. Several multinational companies announce strategic initiatives in China in 2011: such as Coca-Cola's announcement that it would invest an additional $4 billion in China starting 2012, PepsiCo's strategic alliance with Tingyi Holdings that would enable the resulting entity to overtake Coca-Cola as the largest soft drinks company in China, and Nestle's purchase of a majority stake in Yinlu a specialized regional food and beverage manufacturer.

Due to the intense nature of competition within the industry, manufacturers have been very cautious about increasing prices. Manufacturers are competing through new product launches and creative marketing methods in order to maintain profit margins. New product launches keep brands fresh, draw consumer attention, and help manufacturers increase awareness and stimulate sales growth. After packaging, sugar is typically the next largest cost component of beverages (excluding bottled water).

While the launches of our RTD tea, vitamin enriched water products, zero calorie tabletop, and two functional health beverages in 2011 did not achieve the desired market penetration, due to lower temperatures through the summer months, intense competition, and certain problems with the bottles, the Company still believes that there is significant opportunity for its consumer products.

Although AN0C has limited marketing funds available in 2012, AN0C is expected to launch its major 2012 sales and marketing campaign starting in the late spring of 2012 which is prior to the start of the next peak summer season. AN0C is the exclusive RTD Tea sponsor of the China National Olympic Swim Team, and plans to continue leveraging its existing brand equity investment as well as its distribution channels to launch the new products into the Chinese market. The products will be positioned in the medium to premium segment and target health-conscious consumers or those that have certain medical considerations. Increased emphasis will be given to marketing efforts in schools, hospitals and some organizations as well as distribution through health product channels. AN0C expects to focus most of its sales efforts in the China East region as this region is expected to continue to be the primary market for its products in 2012. This marketing strategy will build on AN0C's strength as the leading provider of zero calorie consumer beverages in China and focus is sales and distribution on channels that target consumers that are looking for reduced or zero calorie beverages such as health store chains and schools.

**The China Sugar Reserve Opportunity**

China's continued growth in GDP and expansion of its middle class has resulted in strong growth in China's food and beverage Industry. This, in turn, has resulted in strong growth in domestic sugar demand. Domestic production of sugar in China has not been sufficient to meet the growing demand for sugar in China which has resulted in a shortfall of sugar supply. Bloomberg reported that China's National Development and Reform Commission (NDRC) will continue to import sugar to replenish stockpiles that were diminished by state sales in 2011. Bloomberg quoted customs data that showed sugar purchases were 2.4 million tons in the first 11 months of 2011. In July 2011, the Czarnikow Group noted that increasing demand in Asia is being driven not

only by population growth, but also by urbanization and rising incomes, which allow for increased consumption of processed foods and soft drinks.

OECD-FAO reported that that per capita consumption of sugar in China and India is only 11.9 kilograms and 21.6 kilograms, respectively, much lower than the 34.2 kilograms in developed countries in the Organization for Economic Cooperation and Development (OECD) or the world average of 24.1 kilograms. According to the OECD-FAO report, China is also seeing tightening government controls on the production and use of artificial sweeteners, and forecasts that China will become the largest importer of sugar with the need to import 5 million tonnes of sugar by 2020. China has also seen a large increase in health related problems including growth in diabetes and obesity rates.

GLG's Chinese partner has started operations at its first 10,000 metric tonnes of Low-Calorie Health Sugar ("LCHS") production line which was completed in mid-October 2011. Our Chinese partner is in the process of planning the next phase of LCHS capacity with the construction of an additional 50,000 MT line currently scheduled for 2012. While many decisions have been delayed by the change in leadership in the Chinese Communist Party that will occur, it is anticipated that orders from the CSR for LCHS will occur. . The Company's confidence in the project remains high as continued dialogues with the China Sugar Reserve ("CSR") and other China Government officials have indicated their strong interest in moving this project forward. In addition, our partner has ongoing discussions with Chinese domestic food and beverage companies for the use of LCHS.

## International Financial Reporting Standards ("IFRS")

The Accounting Standards Board of the Canadian Institute of Chartered Accountants requires all publicly accountable enterprises to report under International Financial Reporting Standards (IFRS) for the years beginning on or after January 1, 2011. However, National Instrument 52-107 allows foreign issuers, as defined by the Securities and Exchange Commission (SEC), such as GLG, to file with Canadian securities regulators financial statements prepared in accordance with US GAAP. As such, the Company began reporting under U.S. GAAP beginning January 1, 2011.

In August 2008, the SEC issued a roadmap for the potential convergence to IFRS for US issuers and foreign issuers. The proposal stipulates that the SEC will decide in 2011 whether to move forward with the convergence to IFRS with the transition beginning in 2014. Should the SEC adopt such a proposal, the Company will convert its reporting to IFRS at such time.

## Disclosure Controls and Internal Controls over Financial Reporting

The Company did not make any significant changes in internal controls over financial reporting during the most recent period ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that relevant information relating to the Company, including its consolidated subsidiaries, is made known to senior

management in a timely manner so that information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

The Company's management, under the direction and supervision of the Chief Executive Officer and Chief Financial Officer, is also responsible for establishing and maintaining internal control over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States and the requirements of the Securities and Exchange Commission in the United States, as applicable.

A summary of the Company's regulatory requirements with respect to the evaluation of internal controls and subsequent reporting of the results of that evaluation can be found in the Company's MD&A for the three and twelve months ended December 31, 2011.

It should be noted that while the officers of the Company have certified the Company's period-end filings, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or implemented, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## Risks Related to the Company's Business

This section describes the material risks affecting the Company's business, financial condition, operating results and prospects. A prospective investor should carefully consider the risk factors set out below and consult with his, hers or its investment and professional advisors before making an investment decision. There may be other risks and uncertainties that are not known to the Company or that the Company currently believes are not material, but which also may have a material adverse effect on the Company's business, financial condition, operating results or prospects. In that case, the trading price of the common shares could decline substantially, and investors may lose all or part of the value of the common shares held by them.

There are a number of risk factors that could materially affect the business of GLG, which include but are not limited to the risk factors set out below. The Company has been structured to minimize these risks as best possible. More details about the following risk factors can be found in the Company's Annual Information Form filed on SEDAR at www.sedar.com.

- Intellectual Property Infringement
- Product Liability Costs
- Manufacturing Risk
- Inventory Risk
- Customer Concentration Risk
- Competition
- Government Regulations
- Consumer Perception of Products
- Changing Consumer Preferences
- Market Acceptance

- Dependence on Key Personnel
- Volatility of Share Prices
- Risks Related to Using a Third-Party Manufacturer

## Risks Associated with Doing Business in the People's Republic of China

The Company faces the following additional risk factors that are unique to it doing business in China. More details about the following risk factors can be found in the Company's Annual Information Form.

- Government Involvement
- Changes in the Laws and Regulations in the People's Republic of China
- The Chinese Legal and Accounting System
- Currency Controls
- Additional Compliance Costs in the People's Republic of China
- Difficulties Establishing Adequate Management, Legal and Financial Controls in the People's Republic of China
- Capital Outflow Policies in the People's Republic of China
- Jurisdictional and Enforcement Issues
- Political System in the People's Republic of China

## Additional Information

Additional information relating to the Company is available on its website (www.glglifetech.com), in its Annual Information Form available on SEDAR (www.sedar.com).