



Alterrus Systems Inc. (formerly Valcent Products Inc.)
(A Development Stage Company)

Consolidated Financial Statements
March 31, 2012



Independent Auditor's Report

To the shareholders of
Alterrus Systems Inc. (formerly Valcent Products Inc.)

We have audited the accompanying consolidated financial statements of Alterrus Systems Inc. (formerly Valcent Products Inc.) which comprises the consolidated statements of financial position as at March 31, 2012 and 2011 and April 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended March 31, 2012 and 2011 and related notes which includes a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alterrus Systems Inc. (formerly Valcent Products Inc.) as at March 31, 2012 and 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2c in the financial statements, which indicates that the Company incurred accumulated losses of \$54 million since inception and is expected to incur further losses in the development of its business. These conditions, along with other matters as set forth in Note 2c, indicate the existence of a material uncertainty that casts substantial doubt upon the Company's ability to continue as a going concern.

/s/ BDO CANANDA LLP

Chartered Accountants

Vancouver, Canada
July 30, 2012

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Alterrus Systems Inc. (formerly Valcent Products Inc.)

(A Development Stage Company)

Consolidated Statements of Financial Position

(Expressed in US Dollars)

	Note	As at March 31,		April 1,
		2012	2011	2010
			(Note 22)	(Note 22)
ASSETS				
Current assets				
Cash and cash equivalents	5	\$ 443,342	\$ 31,936	\$ 21,967
Receivables	10(b)(vi)	355,348	300,233	125,532
Prepaid expenses		7,993	98,288	104,823
Inventories		-	-	11,578
Total current assets		806,683	430,457	263,900
Non-current assets				
Assets held for resale	6	433,254	433,254	-
Property and equipment	6	101,074	137,324	997,596
Product license	7	-	1	1
Total non-current assets		534,328	570,579	997,597
Total assets		\$ 1,341,011	\$ 1,001,036	\$ 1,261,497
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
Current liabilities				
Accounts payable and accrued liabilities		\$ 1,765,023	\$ 1,601,161	\$ 872,376
Promissory notes payable	8	1,889,377	558,212	1,033,837
Due to related parties	15	941,661	255,378	253,429
Convertible notes	9	56,568	51,698	1,371,305
Derivative liability	9	-	-	2,541,774
Total current liabilities		4,652,629	2,466,449	6,072,721
Shareholders' deficiency				
Share capital	10	45,462,858	43,855,235	39,011,557
Contributed surplus	10	5,007,897	5,451,916	4,159,012
Commitment to issue shares	10	43,000	1,158,302	126,000
Equity component of convertible notes	9	2,218	5,496	-
Accumulated deficit from prior operations		(2,265,325)	(2,265,325)	(2,265,325)
Accumulated deficit during the development stage		(51,562,266)	(49,671,037)	(45,842,468)
Total shareholders' deficiency		(3,311,618)	(1,465,413)	(4,811,224)
Total equity and liabilities		\$ 1,341,011	\$ 1,001,036	\$ 1,261,497

The accompanying notes are an integral part of these consolidated financial statements

Approved by the Board:

/s/ Stephen K. Fane Director

/s/ Christopher Ng Director

Alterrus Systems Inc. (formerly Valcent Products Inc.)

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Consolidated Statements of Comprehensive Loss*(Expressed in US Dollars)*

		Year Ended March 31,	
	Note	2012	2011
			(Note 22)
EXPENSES			
Product development	11	\$ 949,280	\$ 1,520,297
General and administrative	12	809,380	3,940,796
Loss from operations		(1,758,660)	(5,461,093)
Interest and financing costs	13	(159,134)	(514,551)
Non-operating gains (losses)	14	26,565	2,147,075
Loss and comprehensive loss		\$ (1,891,229)	\$ (3,828,569)
Basic and diluted loss per share		\$ (0.02)	\$ (0.07)
Weighted average number of common shares outstanding	21	91,859,221	58,047,835

The accompanying notes are an integral part of these consolidated financial statements

Alterrus Systems Inc. (formerly Valcent Products Inc.)

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Consolidated Statements of Changes in Equity

(Expressed in US Dollars)

See Note 10b for more details.

	Share capital	Contributed surplus	Commitment to issue shares	Equity component, convertible debt	Accumulated deficit from prior operations	Accumulated deficit during development stage	Total equity
Balance at April 1, 2010	\$ 39,011,557	\$ 4,159,012	\$ 126,000	\$ -	\$ (2,265,325)	\$ (45,842,468)	\$ (4,811,224)
Loss for the year	-	-	-	-	-	(3,828,569)	(3,828,569)
Share capital issued	4,853,678	-	-	-	-	-	4,853,678
Return of shares to treasury	(10,000)	-	-	-	-	-	(10,000)
Warrant modification	-	91,844	-	-	-	-	91,844
Equity component of convertible debt	-	-	-	5,496	-	-	5,496
Warrants issued	-	67,529	-	-	-	-	67,529
For contributed services	-	126,000	(126,000)	-	-	-	-
Commitment to issue shares	-	-	1,158,302	-	-	-	1,158,302
Fair value of options	-	752,462	-	-	-	-	752,462
Stock-based compensation	-	255,069	-	-	-	-	255,069
Balance at March 31, 2011	\$ 43,855,235	\$ 5,451,916	\$ 1,158,302	\$ 5,496	\$ (2,265,325)	\$ (49,671,037)	\$ (1,465,413)
Loss for the year	-	-	-	-	-	(1,891,229)	(1,891,229)
Share capital issued	-	-	-	-	-	-	-
For private placements	331,254	-	-	-	-	-	331,254
Share issuance expenses	(30,709)	-	-	-	-	-	(30,709)
For services	1,229,211	-	-	-	-	-	1,229,211
Transfer from contributed surplus upon exercise of warrants	77,867	(77,867)	-	-	-	-	-
Share issue commitment	-	-	(1,155,302)	-	-	-	(1,155,302)
Fair value of shares issued on exercise of warrants	-	(40,000)	40,000	-	-	-	-
Equity component of convertible debt	-	-	-	(3,278)	-	-	(3,278)
Stock-based compensation (Note 12)	-	(326,152)	-	-	-	-	(326,152)
Balance, March 31, 2012	\$ 45,462,858	\$ 5,007,897	\$ 43,000	\$ 2,218	\$ (2,265,325)	\$ (51,562,266)	\$ (3,311,618)

Alterrus Systems Inc. (formerly Valcent Products Inc.)

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Consolidated Statements of Cash Flows

(Expressed in US Dollars)

		Year Ended March 31,	
	Note	2012	2011
OPERATING ACTIVITIES			
Loss for the year		\$ (1,891,229)	\$ (3,828,569)
Items not involving cash:			
Interest and accretion		159,134	454,462
Warrant modification in investor relations and finder's fees		-	67,529
Share based payment expense		(260,086)	2,500,675
Shares issued for interest, accretion and fees		-	60,000
Loss (gain) on settlement of debts		-	(2,541,774)
Write-down of property and equipment		-	250,748
Gain on disposal of vehicles, net, Note 6		(27,556)	-
Write-off (recovery of receivable)		20,146	(2,997)
Write-down of product license		1	-
Amortization		25,183	176,415
Foreign exchange loss (gain)		338	6,385
Changes in non-cash working capital items	(Note19(a))	865,179	1,019,862
Cash used in operating activities		(1,108,890)	(1,837,264)
INVESTING ACTIVITIES			
Property and equipment		(683)	-
Proceeds from disposal of assets		39,306	-
Cash provided from investing activities		38,623	-
FINANCING ACTIVITIES			
Advances from related parties		-	1,477,653
Proceeds from promissory notes		1,201,285	26,000
Repayment of promissory notes		(25,000)	(169,488)
Repayment of interest		-	(175,606)
Proceeds from issuance of common shares		62,238	1,460,572
Share issue expense		(4,868)	-
Repayments of long-term debt and convertible notes		-	(792,898)
Proceeds from share subscriptions		248,018	21,000
Cash generated by financing activities		1,481,673	1,847,233
Increase (decrease) in cash and cash equivalents during year		411,406	9,969
Cash and cash equivalents, beginning of year		31,936	21,967
Cash and cash equivalents, end of year		\$ 443,342	\$ 31,936

Supplemental cash flow information (Note 19)

The accompanying notes are an integral part of these consolidated financial statements

Alterrus Systems Inc. (formerly Valcent Products Inc.)

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2012

(Expressed in US Dollars)

1. CORPORATE INFORMATION

Alterrus Systems Inc. (formerly Valcent Products Inc.) (the "Company") was incorporated under the Alberta Business Corporations Act on January 19, 1996. The Company's current business activity is to focus on the continued development, marketing and operating of the Company's High Density Vertical Growth System ("VertiCrop") designed to produce higher yield of leafy green vegetables in any climate using a fraction of the resources needed for field agriculture. On June 16, 2012, the Company changed its name to Alterrus Systems Inc. The Company is listed on the OTCQB, having the symbol ASIUF. On July 26, 2012 the Company was successful in obtaining a Canadian National Stock Exchange (CNSX) listing, having the symbol of ASI. The address of the Company's corporate office and principal place of business is 120 Columbia Street, Vancouver, BC, Canada, V6A 3Z8.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This is the first time that the Company has prepared its financial statements in accordance with IFRS, having previously prepared its annual financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles (pre-changeover Canadian GAAP)

These consolidated financial statements have been prepared in compliance with IFRS as issued by the IASB. Subject to certain transition elections and exemptions disclosed in Note 22, the Company consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at April 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 22 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended March 31, 2011 prepared under pre-changeover Canadian GAAP.

The consolidated financial statements were authorized for issue by the Board of Directors on July 30, 2012.

(b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of derivative liabilities at fair value through profit or loss.

The consolidated financial statements are presented in United States dollars, which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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Notes to the Consolidated Financial Statements

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(Expressed in US Dollars)

2. BASIS OF PREPARATION (continued)

(c) Going Concern of Operations

The Company is currently seeking additional funding to finance its operations and obligations. Management is considering all possible financing alternatives, including equity financing, debt financing, joint-ventures, corporate collaboration and licensing arrangements. However, there can be no assurance that the Company will be successful in its future financing attempts.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At March 31, 2012, the Company had not yet achieved profitable operations, had a deficit during the development stage of \$51.6 million and working capital deficit of \$3.8 million. The Company's focus is furthering its development and commercialization of its VertiCrop system, therefore it will incur future losses. These factors cast substantial doubt as to the Company's ability to continue as a going concern. The Company is dependent upon its ability to raise the necessary funds and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. As at March 31, 2012, the Company had cash and cash equivalents of \$443,342 and is actively pursuing the sale of certain assets for proceeds above their carrying value of \$433,254. Subsequent to March 31, 2012, the Company was able to raise an additional \$1,750,000 through an unsecured convertible debenture, facility agreement with a financial institution and an operating line of credit to support operations and the construction of commercial VertiCrop System in downtown Vancouver. See Note 23. Although the Company has successfully raised funds in the past and expects to be a going concern for the next twelve months, further financing will be required for operations. While there is no assurance these funds can be raised, the Company believes such financing will be available as required.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

These consolidated financial statements include the annual accounts of the Company and its wholly-owned subsidiaries, Valcent Products EU Limited (incorporated in the United Kingdom), and Valcent Manufacturing Ltd. (incorporated in the United States), and two months accounts of Local Garden Vancouver Inc., a newly incorporated entity in Canada. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions, balances and unrealized gains and losses on intercompany transactions have been eliminated. The accounting policies and year ends of the Company's subsidiaries are consistent with those applied by the Company.

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Notes to the Consolidated Financial Statements

March 31, 2012

(Expressed in US Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency transactions

Foreign currency accounts are translated into United States dollars as follows:

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined and the related translation differences are recognized in net income or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

(c) Segment reporting

A business segment is a component of the Company's assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The directors have determined that the Company operates in one business segment being the research, product development, operations and resale of the VertiCorpTM System.

(d) Property, plant and equipment

Recognition and Measurement

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. Any corresponding liability is recognized within provisions.

Property, plant and equipment are subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

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(Expressed in US Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

Major Maintenance and Repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Gains and Losses

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within non-operating gains and (losses) in the consolidated statement of comprehensive loss.

Depreciation

The Company amortizes its leasehold improvements on a straight-line basis over the life of the lease. Other assets are amortized using the straight-line method over 10 years for buildings, 5 years for equipment, 3 1/3 years for computer equipment and 5 years for furniture and fixtures and vehicles.

During the year of acquisition, amortization is 50% of amounts otherwise determinable.

The assets' depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Non-current assets classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Company's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets are not depreciated. As the fair value of the assets less costs to sell exceeds their remaining carrying amount, no impairments had to be recorded in the reporting period.

(e) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of Non-Financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. An impairment loss is charged to the profit or loss, except to the extent it reverses gains previously recognized in other comprehensive loss/income.

(g) Financial Instruments

Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. The Company has no financial assets at fair value through profit or loss, held to maturity investments, or available for sale financial assets.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets, and have not been designated as either fair value through profit and loss or available for sale. After initial measurement loans and receivables are subsequently measured at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Fair values of financial instruments traded in active markets are determined based on quoted market prices, where available. Bid prices are used for assets held or liabilities to be issued; asking prices are used for assets to be acquired or liabilities held.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial Instruments (continued)

For financial instruments not traded in an active market, fair values are determined based on appropriate valuation techniques. Such techniques may include discounted cash flow analysis, using recent arm's-length market transactions, reference to the current fair value of another instrument that is substantially the same, and other valuation models. The Company applies a hierarchy to classify valuation methods used to measure financial instruments carried at fair value. Levels 1 to 3 are defined based on the degree to which fair value inputs are observable and have a significant effect on the recorded fair value, as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuation techniques use significant observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices), or valuations are based on quoted prices for similar instruments; and
- Level 3: Valuation techniques use significant inputs that are not based on observable market data (unobservable inputs).

An analysis of fair values of financial instruments is provided in Note 17.

Financial Liabilities

Financial liabilities are classified either as fair value through profit or loss or as other financial liabilities, based on the purpose for which the liability was incurred. Other financial liabilities comprise trade payables and accrued liabilities, promissory notes, debt portion of convertible note and amounts due to related parties. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. Trade payable amounts are unsecured.

Compound Instruments

The Company may issue compound financial instruments such as convertible notes. Upon issuance, the Company determines whether the conversion feature represents an equity component or liability component. When the conversion feature represents an equity component, the proceeds received on issue of the convertible note are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortized cost until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option and is recognized within shareholder's equity, net of income tax effects.

If the conversion feature represents a liability, or if the convertible note includes any other embedded derivatives they will be separated from the host contract and accounted for as a derivative when the following three criteria are satisfied:

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- When the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The entire instrument is not measured at fair value with changes in fair value recognized in the statement of comprehensive loss.

The difference between the fair value of the total compound instrument and the fair value of the embedded derivative is assigned to the host contract. The embedded derivative is fair valued each reporting period using an appropriate fair value valuation model with changes in the fair value being recognized immediately in net loss and comprehensive loss.

(h) General Provisions

Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(i) Taxation

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or other comprehensive loss/income.

Current tax is the expected tax payable or recoverable on the taxable profit or loss for the year, using rates enacted or substantively enacted at the balance sheet date, and any adjustments to the tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Share Capital

The Company's common shares, preferred shares, certain share warrants and options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Stock-Based Compensation

The Company makes equity-settled stock-based payments to certain Company employees under the terms of its employee stock option scheme. In addition to those granted under the Company's employee stock option scheme, the Company has granted stock options to some advisers. The fair value of options granted to employees is recognized as an employee expense and to advisers as professional fees, with a corresponding increase in equity by way of a credit to contributed surplus.

The fair value of stock-based payments to employees is measured at grant date and expensed on a straight-line basis over the expected vesting period. The fair value of the options granted is measured using a Black-Scholes valuation model, taking into account the terms and conditions upon which the options were granted.

Where stock-based payments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income.

When the value of goods and services received in exchange for the stock-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled stock-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital along with any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent that the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Earnings / loss per share

Basic earnings / loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings / loss per common share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were exercised or converted. (Note 21)

(l) Product license and intangible assets

Product license costs include costs to acquire ownership rights and intellectual property relating to the VertiCrop vertical plant growing technology. Product development costs are expensed before the technology is identified as having economic potential.

Product development costs are capitalized when it is identified as having economic potential. The product license is considered to have economic potential when it is expected that resources can be legally and economically developed. Prior to capitalizing such costs, management determines that the following conditions have been met:

- i) There is a probable future benefit that will contribute to future cash inflows;
- ii) The Company can obtain the benefit and control access to it;
- iii) The transaction or event giving rise to the benefit has already occurred.

(m) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the arrangement conveys a right to use the asset. When substantially all risks and rewards of ownership are transferred from the lessor to the lessee, lease transactions are accounted for as finance leases. All other leases are accounted for as operating leases.

Leases of assets classified as finance leases are presented in the consolidated statements of financial position according to their nature. The interest element of the lease payment is recognized over the term of the lease based on the effective interest rate method and is included in financing expense. Payments made under operating leases are recognized in income on a straight-line basis over the term of the lease.

(n) Inventory

Inventories are stated at the lower of cost and net realizable value. Costs include consumable parts and supplies, operating materials and transportation costs. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Standards, amendments and interpretations not yet effective

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted unless otherwise noted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

- (i) IFRS 9 is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard.
- (ii) IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation - Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning April 1, 2013.
- (iii) IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Venturers. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning April 1, 2013.
- (iv) IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning April 1, 2013.
- (v) IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning April 1, 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below

(a) Valuation of Derivative Instruments

IFRS requires that embedded derivative instruments be bifurcated and assessed, along with free-standing derivative instruments such as warrants and certain non-employee stock-options to determine whether they should be considered a derivative liability and subject to re-measurement at each reporting period at their fair value.

In determining whether a contract represents a derivative or contains an embedded derivative, the most significant area where judgment has been applied pertains to the determination as to whether the contract can be settled net, one of the criteria in determining whether a contract for a non-financial asset is considered a derivative and accounted for as such. Judgment is also applied in determining whether an embedded derivative is closely related to the host contract, in which case bifurcation and separate accounting are not necessary.

The Company has measured and classified instruments with conversion features or down-round provision as either compound instruments or host instruments with embedded derivatives. Conversion features that are deemed to be derivative liabilities and embedded derivatives that require separation from the host instrument are recorded on the balance sheet at fair value. Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Estimated fair values are designed to approximate amounts at which the financial instruments could be exchanged in a current transaction between willing parties. Multiple methods exist by which fair value can be determined, which can cause values (or a range of reasonable values) to differ. There is no universal model that can be broadly applied to all items being valued. Further, assumptions underlying the valuations may require estimation of share price volatility, discount rates, interest free rates, defaults and other relevant variables. Fair value of our host debt is based on the comparable market debt without the conversion feature. The fair value of a derivative liability which is not traded in an active market is determined by using valuation techniques, which requires estimation. Standards require the use of a three-level hierarchy for disclosing fair values for instruments measured at fair value on a recurring basis. Judgment and estimation are required to determine in which category of the hierarchy items should be included. When the inputs used to measure fair value fall within more than one level of the hierarchy, the level within which the fair value measurement is categorized is based on our assessment of the lowest level input that is the most significant to the fair value measurement. The Company utilized levels 2 and 3 with regards to the fair value inputs.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Assets held for sale

During the year ended March 31, 2011, certain assets were classified as held for sale. Management is committed to selling by negotiating with buyers, receiving offers and counter-offers, and the asset is available immediately for sale as a turn-key operation or real estate. A real-estate agent is engaged to sell the property and the sale is highly probable within the next twelve months given recent letters of intent to purchase. Completion of the plan to sell the assets does not require any further significant efforts. As all criteria were met for classification under held for sale, the land and building in El Paso, Texas have been classified as assets held for sale. There is judgment in relation to assessing whether the asset held for sale is being carried at the lower of carrying amount and the fair value less costs to sell.

(c) Stock based compensation

The Company accounts for stock-based compensation in accordance with IFRS 2 Share-based payments which requires companies to recognize the cost of such awards of equity instruments based on the grant date fair value of those awards. The Company estimates the fair value of stock option awards on the date of grant utilizing a Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of the short term traded options that have no vesting restrictions. Certain key assumptions used in the Black-Scholes model include the expected stock price volatility, forfeitures, dividend yield, interest risk free return and expected term.

5. CASH AND CASH EQUIVALENTS

Cash at banks and on hand earns interest at floating rates based on daily bank deposit rates.

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6. PROPERTY AND EQUIPMENT

	Land (a)	Building (a)	Equipment	Computer Equipment	Furniture and fixtures	Vehicles	Leasehold improvements	Total
COST								
Balance, April 1, 2010	\$ 245,485	\$ 648,413	\$ 616,709	\$ 152,149	\$ 84,886	\$ 42,788	\$ 186,828	\$ 1,977,258
Additions						145		145
Reclassification (a)	(245,485)	(648,413)	-	-	-	-	-	(893,898)
Balance, March 31, 2011	-	-	616,709	152,149	84,886	42,933	186,828	1,083,505
Additions	-	-	683	-	-	-	-	683
Disposals	-	-	(29,135)	-	(1,940)	(42,933)	-	(74,008)
Balance, March 31, 2012	\$ -	\$ -	\$ 588,257	\$ 152,149	\$ 82,946	\$ -	\$ 186,828	\$ 1,010,180
DEPRECIATION								
Balance, April 1, 2010	\$ -	\$ 444,582	\$ 273,656	\$ 132,515	\$ 59,675	\$ 17,266	\$ 51,968	\$ 979,662
Depreciation	-	16,062	113,473	11,318	10,036	8,704	16,822	176,415
Write-offs	-	-	104,006	8,316	15,175	5,213	118,038	250,748
Reclassification (a)	-	(460,644)	-	-	-	-	-	(460,644)
Balance, March 31, 2011	-	-	491,135	152,149	84,886	31,183	186,828	946,181
Depreciation	-	-	25,183	-	-	-	-	25,183
Disposals	-	-	(29,135)	-	(1,940)	(31,183)	-	(62,258)
Balance, March 31, 2012	\$ -	\$ -	\$ 487,183	\$ 152,149	\$ 82,946	\$ -	\$ 186,828	\$ 909,106
CARRYING AMOUNTS								
April 1, 2010	\$ 245,485	\$ 203,831	\$ 343,053	\$ 19,634	\$ 25,211	\$ 25,522	\$ 134,860	\$ 997,596
March 31, 2011	\$ -	\$ -	\$ 125,574	\$ -	\$ -	\$ 11,750	\$ -	\$ 137,324
March 31, 2012	\$ -	\$ -	\$ 101,074	\$ -	\$ -	\$ -	\$ -	\$ 101,074

(a) During the year ended March 31, 2011, the Company decided to sell its property in El Paso, Texas. In October 2010, the Company stopped amortizing these assets and classified these assets as assets held for sale. As at March 31, 2012, assets held for sale totaled \$433,254 (Land \$245,485 and Building \$187,769) (2011 - \$433,254). The Company is still actively searching for a buyer of the land and building and expects to sell the assets held for sale within the next twelve months.

During the year ended March 31, 2011, as a result of a decision to shift the Company's focus from being a research and development Company to marketing and commercializing the Company's VertiCrop System, the Company determined that certain equipment used for development of some of its products had no continuing value to the Company and therefore wrote off the amount of \$250,748, being the carrying value of those assets, to the consolidated statement of comprehensive loss.

Disposals

During the year ended March 31, 2012, the Company disposed of vehicles, equipment and furniture for \$54,575, of which \$15,269 was for settlement of wages at their fair value and \$39,306 was received in cash. Carrying values for the equipment disposed was \$nil, except for a vehicle with carrying value of \$11,750. Gain recorded on disposal of capital assets during the year ended March 31, 2012 is \$42,825.

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7. PRODUCT LICENSE AND TECHNOLOGY PURCHASE

The Company entered into a purchase agreement on April 1, 2009 and amended March 8, 2010, to acquire all ownership rights and intellectual property relating to its VertiCrop vertical plant growing technology and Tomorrow Garden Kit technology.

During the year ended March 31, 2012, \$18,000 (2011 - \$192,000) was paid or accrued to the licensor under the terms of the purchase agreement, with such costs recorded as product development costs.

During the year ended March 31, 2012, the Company performed a comprehensive review of the Purchase Agreement and the Company's improved VertiCrop technology and concluded that it is not using the intellectual property relating to the vertical plant growing technology as was contemplated in the Purchase Agreement and thus terminated the Purchase Agreement. Due to this termination, the Product License \$1 (2011 - \$nil) was written-off during the year.

8. PROMISSORY NOTES PAYABLE

Promissory notes payable consisted of the following due to lenders:

	As at March 31,		At April 1,
	2012	2011	2010
8% and 10% simple interest, unsecured, due on demand (a)	\$ 583,835	\$ 558,212	\$ 1,033,837
18% simple interest, secured, due July 14, 2012 (b)	790,099	-	-
18% simple interest, unsecured, due February 2, 2014 (c)	515,443	-	-
	\$ 1,889,377	\$ 558,212	\$ 1,033,837

(a) Promissory notes of \$583,835 include amounts to related parties. See Note 15 for more details. Total interest accrued during the year ended March 31, 2012 was \$53,279 (2011 - \$4,843).

(b) On July 14, 2011, the Company issued a secured promissory note for \$700,000 accruing interest at 18% per annum with a conversion feature connected to any unpaid accrued interest. The principal and accrued interest is due on demand with any unpaid accrued interest, at the option of the lender, able to be converted into units at a price per unit of \$0.10. Each unit consists of one common share and one half of one warrant. One whole warrant is exercisable into one common share at \$0.15 for a two-year period. The note is secured by a lien on, and a security interest in, certain real property located in El Paso, Texas owned by a wholly-owned subsidiary of the Company. Total interest accrued during the year ended March 31, 2012 is \$90,099. This note is past due, due on demand and presented as a current liability.

(c) On February 3, 2012, the Company issued a promissory note for \$501,350 (CDN\$500,000) accruing interest at 18% per annum with a conversion feature connected to any accrued interest. The note matures February, 2014 but the principal and accrued interest is due on demand with any accrued interest, at the option of the lender, may be converted into units at a price per unit of \$0.10. Each unit consists of one common share and one half of one warrant. One whole warrant is exercisable into one common share at \$0.15 for a two year period. The Company may repay the note and interest at any time without penalty. Total interest accrued during the year ended March 31, 2012 is \$14,158. The maturity date of this note was amended to July 20, 2012. This note is past due, due on demand and presented as a current liability.

The Company has designated convertible accrued unpaid interest as at fair value through profit or loss and determined the fair value to be equal the accrued interest given its demand nature.

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Notes to the Consolidated Financial Statements**March 31, 2012***(Expressed in US Dollars)***9. CONVERTIBLE NOTES**

Date of Issue	Balance, April 1, 2011	Issued principal and transfers	Equity portion	Derivative liability portion, net	Accretion / interest	Conversion/ repayments	Balance, March 31, 2012
Feb 2010 (b)	\$ 51,698	\$ -	\$ (2,218)	\$ -	\$ 7,088	\$ -	\$ 56,568
	\$ 51,698	\$ -	\$ (2,218)	\$ -	\$ 7,088	\$ -	\$ 56,568

Date of Issue	Balance, April 1, 2010	Issued principal and transfers	Equity portion	Derivative liability portion, net	Accretion interest or penalty	Conversion/ repayments	Balance, March 31, 2011
July 2008 (a)	\$3,913,079	\$ 10,000	\$ -	\$ (2,541,774)	\$ 286,083	\$(1,667,388)	\$ -
Feb 2010 (b)	-	51,020	(5,496)	-	6,174	-	51,698
	\$3,913,079	\$ 61,020	\$ (5,496)	\$ (2,541,774)	\$ 292,257	\$(1,667,388)	\$ 51,698

(a) \$2,168,000 July 2008 Convertible Note

On July 21, 2008, the Company closed a financing of zero coupon, 12% interest, and senior secured convertible promissory notes in the amount of \$2,428,160 with an aggregate purchase price of \$2,168,000 with four investors, one of which was the Company's now former Chief Financial Officer. The debt is convertible into common shares at the lesser of \$9.18 per share (unless the conversion price has been adjusted pursuant to further contract covenants) and 70% of the average of the five lowest closing bid prices for the ten preceding trading days. The Company issued each purchaser in the private placement two warrants - one warrant redeemable by the Company and the other non-redeemable. The non-redeemable warrants are exercisable at \$9.90 and permit the holder to purchase 264,506 common shares. The redeemable warrants are exercisable at \$13.50 and permit the holder to purchase 132,253 common shares. Further, the Company issued 24,401 non-redeemable warrants, 12,201 redeemable warrants and paid \$160,000 in cash as transaction costs. The warrants carry a term of five years from the date of closing of the financing. The redeemable warrants may be redeemed by the Company at a price of \$0.18 per warrant only if certain conditions have been satisfied including the Company's common shares having closed at \$27.00 per share or greater for a period of 20 consecutive trading days and the warrant holder being able to resell the shares acquired upon exercise through a resale registration statement or under Rule 144 of the United States Securities Act. These warrants also contained down round provisions.

Effective March 27, 2009, the Company settled these notes by:

- Settlement of the prepayment penalty, original issuer discounts and interest portions of the convertible note including \$524,884 in prepayment penalty, \$260,160 in original issuer discounts, and \$371,771 in interest which includes the interest payable on the new note through December 31, 2009 for an aggregate settlement of \$1,156,815 and agreed to issue 2,892,036 common shares that were restricted from trading and pooled until January 1, 2010;
- Repayment of \$400,000 to subscribers (cash paid May 11, 2009); and
- Conversion of \$250,000 face value of the original note into 312,500 common shares of the Company.
- Recorded a loss on settlement of debt of \$885,292 due to a modification of the original debt terms for the year ended March 31, 2009.

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9. CONVERTIBLE NOTES (continued)

(a) \$2,168,000 July 2008 Convertible Note (continued)

The terms of the remaining \$1,323,000 convertible promissory notes include the following:

- If the promissory note was not settled by December 31, 2009, the note would be in default at the default rate of interest rate of 18%, be due on demand and the original conversion feature of the instrument would be reinstated. The debt was not settled by December 31, 2009, and was thus in default.
- If prior to March 31, 2010, the Company issues common shares at a price less than the valuation of the shares issued to each note holder, the Company will issue to each note holder additional common shares based on the lower valuation.

The convertible debenture was assessed based on the substance of the contractual arrangement in determining whether it exhibits the fundamental characteristics of a financial liability or equity. While the conversion feature represents an equity component, management has assessed that because the conversion feature can be settled with a variable number of shares and that settlement predicated on a variable number of instruments triggers liability accounting, the conversion feature has been recorded as a liability as at December 31, 2009 when the conversion feature was reinstated. The recognition of the derivative liability recorded was based on its fair value. On December 31, 2009, the convertible note of \$2,746,079 included an embedded derivative liability in the amount of \$1,870,194. As at April 1, 2010, the derivative liability was reduced to \$1,374,774 as a result of a change in fair value inputs and foreign exchange rates. The Company applied the fair value method using Black-Scholes option pricing model in accounting for the derivative utilizing stock price - \$0.42; exercise price of \$0.294 being 70% of the stock price; risk-free interest rate – 0.41 %; expected life – 1 years ; expected volatility – 195%; and expected dividends – nil.

The warrants issued were assessed based on the contractual arrangement in determining whether it exhibits the fundamental liability or equity. The warrants issued to a broker were assessed as broker warrants, presented as equity instruments and valued in accordance with IFRS 2. The warrants issued to the noteholders were assessed as a liability instrument at fair value and re-measured through consolidated comprehensive loss. As at April 1, 2010, the fair value of the noteholders warrants was \$1,167,000. The Company computed the fair value of this derivative using the binomial lattice option pricing model using risk-free interest rate – 1.95 %; expected life – 1/3 years ; expected volatility – 69.93%; and expected dividends – nil.

During the year ended March 31, 2010, \$10,000 was converted into 21,704 common shares of the Company which were returned to the Company during the year ended March 31, 2011.

There were no transactions costs to be allocated between the embedded derivative and debt host contract.

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9. CONVERTIBLE NOTES (continued)

(a) \$2,168,000 July 2008 Convertible Note (continued)

On May 31, 2010, a third party purchased from the existing convertible note holders, \$634,756 of the convertible notes and \$65,244 in accrued interest for aggregate proceeds of \$700,000.

The third party and the Company agreed the \$700,000 promissory note could be converted at a conversion rate of \$0.20 per common share.

On June 15, 2010, the Company issued 3,500,000 common shares at a market rate of \$0.20 per common share, settling the \$700,000 promissory note.

In return for finding the third party and arranging the conversion of the \$700,000 debt acquired by the third party at \$0.20, an aggregate of 875,000 warrants exercisable at \$0.30 were issued to a third party exercisable until May 31, 2012 as a finder fee. The Company applied the fair value method using Black-Scholes option pricing model in accounting for warrants utilizing risk-free interest rate – 1.43 %; expected life – 2 years ; expected volatility – 100%; and expected dividends – nil. The Company included the value of finders' warrants issued, \$67,529, as a charge to interest and finance costs in the consolidated statement of comprehensive loss for the year ended March 31, 2011 (Note 10(e)(v)).

On September 15, 2010, the Company issued 500,000 shares on a prorated ownership basis to the original convertible note holders as a penalty to extend the maturity term of these notes until December 31, 2010 and to increase the rate of default interest from 18% to 30%. The fair value shares were valued at \$0.12, being the fair value of the shares on the date of transaction and \$60,000 was charged to interest and finance costs in the consolidated statement of comprehensive loss.

On December 31, 2010, the Company agreed to pay the original convertible note holders a penalty for delays in negotiating the final repayment of the fully matured outstanding principal and interest in the amount of \$104,653. This amount was charged to interest and finance costs in the consolidated statement of comprehensive loss.

On February 17, 2011, the Company repaid in full the original convertible note holders including principal in the amount of \$688,244 and interest and penalties accrued during the year ended March 31, 2011 in the amount of \$246,522 for a total repayment of \$934,766. As a result of this repayment, the original convertible note holders had no further claims over the assets of the Company.

As part of the original debt agreement, the noteholders' warrants were subject to a down round provision in the event the Company closed an equity offering at a price lower than the original exercise price on the warrants. Under this provision, the noteholders had a right to the issuance of 29,360,166 additional warrants at an exercise price of \$0.15 expiring under the original July 2013 expiry date. The Company and the convertible noteholders agreed to remove the reset provision on the warrants and amend the issuance of warrants to be limited to 4,047,686 warrants for a two-year period ending January 14, 2013. This change was determined to be significant and resulted in an extinguishment of the liability instrument.

The de-recognition of the derivative liabilities and any fair value adjustments during the March 31, 2011 year in connection with the extinguishment of the convertible note and noteholder warrants with down round provisions was recorded to gain on settlement of debt in the consolidated statement comprehensive loss in accordance with IFRIC 19.

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9. CONVERTIBLE NOTES (continued)**(a) \$2,168,000 July 2008 Convertible Note (continued)**

The following are continuity schedules for the convertible debt and related derivative liability and further details of gain on settlement of debt associated with the final settlement:

Convertible Note

Balance, April 1, 2010 (interest and principal)	\$ 1,371,305
Fair value of returned common shares	10,000
June 15, 2010, partial settlement	(700,000)
Accrued interest and settlement penalty fees	286,083
Interest paid by issuance of 135,925 shares	(32,622)
February 2011, final settlement	(934,766)
Balance, March 31, 2011	\$ -

Derivative Liability

Balance, April 1, 2010	\$ 2,541,774
De-recognition of derivative liability – convertible debt	(1,374,774)
De-recognition of derivative liability – warrant with down round provision	(1,167,000)
Balance, March 31, 2011	\$ -

Gain on Settlement of Debt

De-recognition of derivative liability – convertible debt	\$ (1,374,774)
De-recognition of derivative liability – warrant with down round provision	(1,167,000)
Gain on settlement of debt, year ended March 31, 2011	\$ (2,541,774)

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9. CONVERTIBLE NOTES (continued)

(b) \$50,000 February 2010 Convertible Note

On February 16, 2010, the Company issued to a third party an unsecured promissory note bearing interest at the rate of 8% per annum whose terms changed on May 15, 2010 to an unsecured convertible note with a term to February 15, 2012 bearing interest at 8% per annum. Both interest and principal may be converted at the option of the lender at any time after May 15, 2010 at \$0.20 per unit, with each unit consisting of one common share and one share purchase warrant exercisable at \$0.40 per share for a two-year term from the date of conversion. The convertible note was assessed based on the substance of the contractual arrangement in determining whether it exhibits the fundamental characteristics of a financial liability or equity. Since the conversion feature is settled with a fixed number of common shares, the conversion feature has been recorded as an equity component.

The Company used the residual method to allocate a value of \$5,496 to the equity component of the convertible note. The fair value of the debt component was determined using an implied market interest rate of 15% which the Company believes is a comparable rate for similar debt without the conversion feature. The equity component is accreted over the life of the note up to \$51,020 principal amount using the effective interest rate method.

On February 14, 2012, the Company entered into an amendment to the convertible note whereby, the maturity date was extended to February 15, 2013, the interest rate was increased to 10% per annum, the unit conversion price was reduced to \$0.10 and the share purchase warrant price was reduced to \$0.20. Since the conversion feature is settled with a fixed number of common shares, the conversion feature has been recorded as an equity component. All other terms, conditions, covenants, obligations or agreements contained in the Note were not affected. The amendment of this note resulted in a substantial modification and a gain of \$2,066 recognized within interest and finance cost in consolidated comprehensive loss.

The Company used the residual method to allocate a value of \$2,218 to the equity component of the amended convertible note. The fair value of the debt component was determined using an implied market interest rate of 15% which the Company believes is a comparable rate for similar debt without the conversion feature. The equity component is accreted over the life of the note up to \$51,020 principal amount using the effective interest rate method.

During the year ended March 31, 2012, the Company recorded \$7,088 (2011 - \$6,174) in interest, and finance costs in relation to this convertible note.

Alterrus Systems Inc. (formerly Valcent Products Inc.)

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Notes to the Consolidated Financial Statements**March 31, 2012***(Expressed in US Dollars)***10. SHARE CAPITAL AND RESERVES****(a) Authorized:**

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value – none issued

(b) Issued and outstanding:

The common share issuances consisted of the following transactions:

	Number	Share capital	Contributed surplus
Balance at April 1, 2010	52,175,329	\$ 39,011,557	\$ 4,159,012
Share capital issued:			
For private placements (vi)	10,192,365	1,528,855	-
Share issuance expense (vi)		(77,297)	
For settlement of debt (vii)	15,636,656	2,345,498	-
For investor relation services (viii)	600,000	144,000	-
For consulting services (ix)	500,000	120,000	-
For payment of interest (Note 9(a))	135,925	32,622	-
For conversion of convertible debt (Note 9(a))	3,500,000	700,000	-
For extension of convertible debt (Note 9(a))	500,000	60,000	-
Return of shares to treasury (Note 9(a))	(21,704)	(10,000)	-
Warrant modification (e(iv))	-		91,844
Warrants issued (e(i))	-	-	67,529
For contributed services (x)	-	-	126,000
Fair value of management and finance options (v)	-	-	752,462
Stock-based compensation	-	-	255,069
Balance at March 31, 2011	83,218,571	\$ 43,855,235	\$ 5,451,916
Share capital issued:			
For private placements (i)	3,794,413	331,254	-
Share issuance expense (i)		(30,709)	-
For consulting services (ii)	200,000	26,500	-
For investor relation services (iii)	450,000	59,250	-
Management and finance incentive (iv)	7,323,019	1,143,461	-
Transfer from contributed surplus upon exercise of warrants (e(iii))	-	77,867	(77,867)
Fair value of common shares issued on exercise of warrants (e(iii))	-	-	(40,000)
Stock-based compensation (vi) & (d)	-	-	(326,152)
Balance, March 31, 2012	94,986,003	\$ 45,462,858	\$ 5,007,897

Alterrus Systems Inc. (formerly Valcent Products Inc.)

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March 31, 2012

(Expressed in US Dollars)

10. SHARE CAPITAL AND RESERVES (continued)

(b) Issued and outstanding: (continued)

During the year ended March 31, 2012, the Company:

- (i) Issued 1,036,263 units at a price of \$0.15 per unit for gross proceeds of \$155,439 pursuant to a private placement. Each unit consists of one common share and one half of one warrant. One whole warrant is exercisable into one common share at \$0.25. The common shares were subject to a six month lock up agreement from the date of issue. No value has been attributed to the warrants as the share price at the closing date was either equal to or less than unit price. Total share issuance costs connected with the private placement was \$4,868 as a finder's fee.

Issued 758,150 units at a price of \$0.10 per unit for gross proceeds of \$75,815 pursuant to a private placement. Each unit consists of one common share and one half of one warrant. One whole warrant is exercisable into one common share at \$0.15. The common shares were subject to a six month lock up agreement from the date of issue. No value has been attributed to the warrants as the share price at the closing date was either equal to or less than unit price.

Issued 2,000,000 units at a price of \$0.05 per unit for gross proceeds of \$100,000 pursuant to a private placement. Each unit consists of one common share and one half of one warrant. One whole warrant is exercisable into one common share at \$0.25. The common shares were subject to a six month lock up agreement from the date of issue. No value has been attributed to the warrants as the share price at the closing date was either equal to or less than unit price.

- (ii) Issued 200,000 common shares in connection with a financial consulting agreement for internet and marketing services at an aggregate fair value of service of \$26,500 (Note 12).
- (iii) Issued 450,000 common shares in connection with two consulting services contracts for investor relations at an aggregate fair value of service of \$59,250 (Note 12).
- (iv) Pursuant to the December 14, 2010 private placement in (v), the Company issued an additional 352,805 common shares to management and 323,019 to a broker for a total of 7,323,019 common shares. The additional shares to management were valued at \$54,069 based on the grant date of the shares charged to stock-based compensation. (Note 12) The additional shares to the broker were valued at \$25,801 being the fair value of service provided.

In addition, pursuant to this agreement an additional 675,824 options were earned to bring the total options earned to 7,323,019. The Company applied the fair value method using Black-Scholes option pricing model in accounting for these options. by using a risk-free interest rate – 2.00%; expected life – 5 years ; expected volatility – 100%; exercise price - \$0.15; share price - \$0.09 and expected dividends – nil. The fair value of these options was \$421,489 which is lower than the previous estimate of \$752,462 recorded for the period ended March 31, 2011. This resulted in a recovery of \$330,976 to stock-based compensation in the consolidated statement of comprehensive loss. See Note 12.

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Notes to the Consolidated Financial Statements

March 31, 2012

(Expressed in US Dollars)

10. SHARE CAPITAL AND RESERVES (continued)

(b) Issued and outstanding: (continued)

During the year ending March 31, 2011, the Company:

- (v) Entered into a Private Placement Agreement ("PP Agreement") on December 14, 2010 with a third party and key new management. The PP Agreement included a commitment to the Company along with provisions for the new management group and third party to further the development and improve the marketability of the VertiCrop™ vertical plant technology and to raise funds. In return for these services, the parties could earn up to 10,000,000 common shares of the Company based on a calculation of total dollars raised over \$2,300,000 times 10,000,000. As at March 31, 2011, the Company had a commitment to issue 6,647,195 common shares. The shares were valued at \$1,063,551 based on the grant date and charged to stock-based compensation. (Note 12)

In addition under this PP Agreement the parties could earn up to 10,000,000 options at an exercise price of \$0.15 and an expiry of five years from grant date based on the same formula used for the common shares above. As March 31, 2011, the parties were entitled to receive 6,647,195 options based on completed performance of raising funds and progressing the VertiCrop to commercialization. These options were measured at March 31, 2011 by applying the fair value method using Black-Scholes option pricing model in accounting for options utilizing risk-free interest rate – 2.77%; expected life – 5 years ; expected volatility – 100%; exercise price - \$0.15; share price - \$0.15 and expected dividends – nil. The Company included the estimated value of the options earned but not granted of, \$752,462, as a charge to stock-based compensation in the consolidated statement of comprehensive loss. (Note 12)

- (vi) Closed private placements in two tranches and issued 10,192,365 units at a price of \$0.15 per unit for gross proceeds of \$1,528,855. Each unit consists of one common share and one half of one warrant. Each warrant is exercisable into one common share at \$0.25. The common shares were subject to a six month lock up agreement from the date of issue. No value has been attributed to the warrants as the share price at the two closing dates was either equal to or less than unit price. Total share issuance costs connected with the private placement was \$77,297 and includes \$72,500 as a finder's fee and \$4,797 as legal fees.

As at March 31, 2011, the Company had not collected \$68,000 in respect to share subscriptions for this private placement and was recorded in receivables. During the year ended March 31, 2012, these funds were collected. This is a non-cash transaction in the consolidated statement of cash flows for 2011.

- (vii) During the year ending March 31, 2011, the Company entered into a series of debt settlement agreements whereby it agreed to issue common shares in settlement of certain promissory notes, accounts payable and related party amounts owing. An aggregate of \$2,345,498 representing these balances was settled in exchange for 15,636,656 units at \$0.15 per unit, being the fair value of the unit at the date of the settlement. Each unit consists of one common share and one half of one warrant. One whole warrant is exercisable into one common share at \$0.25. The common shares were subject to a six month lock up agreement. Trivial value has been attributed to the warrants as the share price at the debt settlement date was equal to the settlement price.

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Notes to the Consolidated Financial Statements

March 31, 2012

(Expressed in US Dollars)

10. SHARE CAPITAL AND RESERVES (continued)

(b) Issued and outstanding: (continued)

(viii) Issued the following common shares for investor relations services during the year ended March 31, 2011:

- 500,000 common shares at an aggregate fair value of \$120,000 being the fair value of services provided.
- 50,000 common shares for services rendered under a public relations agreement at a fair value of \$12,000 being the fair value of services provided; and
- 50,000 common shares for services rendered under a design services contract at a fair value of \$12,000 being the fair value services provided.

(ix) Issued the following common shares for consulting services in respect of product development during the year ended March 31, 2011:

- 500,000 common shares at an aggregate fair value of \$120,000 being the fair value of services provided;

(x) For Contributed Services:

At April 1, 2010, commitment to issue shares includes 300,000 common shares issuable to a former officer and director of the Company for product development services performed during the year ended March 31, 2010. The 300,000 common shares were valued at \$0.42 per share, which is equivalent to the quoted market price as at the performance completion date of March 31, 2010 for an aggregate fair value of \$126,000. During the year ended March 31, 2011, the Company and the officer and director determined that the shares would be replaced by stock options once the stock option plan is approved. The \$126,000 was removed from commitment to issue shares and charged to contributed surplus.

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Notes to the Consolidated Financial Statements**March 31, 2012***(Expressed in US Dollars)***10. SHARE CAPITAL AND RESERVES (continued)****(c) Commitment to Issue Shares**

At March 31, 2012 and 2011, commitment to issue common shares (or units, where indicated) included the following:

	Number	Share capital	Contributed surplus
Balance at April 1, 2010	52,175,329	\$ 39,011,557	\$ 4,159,012
Share capital issued:			
For private placements (vi)	10,192,365	1,528,855	-
Share issuance expense (vi)		(77,297)	
For settlement of debt (vii)	15,636,656	2,345,498	-
For investor relation services (viii)	600,000	144,000	-
For consulting services (ix)	500,000	120,000	-
For payment of interest (Note 9(a))	135,925	32,622	-
For conversion of convertible debt (Note 9(a))	3,500,000	700,000	-
For extension of convertible debt (Note 9(a))	500,000	60,000	-
Return of shares to treasury (Note 9(a))	(21,704)	(10,000)	-
Warrant modification (e(iv))	-	-	91,844
Warrants issued (e(i))	-	-	67,529
For contributed services (x)	-	-	126,000
Fair value of management and finance options (v)	-	-	752,462
Stock-based compensation	-	-	255,069
Balance at March 31, 2011	83,218,571	\$ 43,855,235	\$ 5,451,916
Share capital issued:			
For private placements (i)	3,794,413	331,254	-
Share issuance expense (i)		(30,709)	-
For consulting services (ii)	200,000	26,500	-
For investor relation services (iii)	450,000	59,250	-
Management and finance incentive (iv)	7,323,019	1,143,461	-
Transfer from contributed surplus upon exercise of warrants (e(iii))	-	77,867	(77,867)
Fair value of common shares issued on exercise of warrants (e(iii))	-	-	(40,000)
Stock-based compensation (vi) & (d)	-	-	(326,152)
Balance, March 31, 2012	94,986,003	\$ 45,462,858	\$ 5,007,897

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Notes to the Consolidated Financial Statements

March 31, 2012

(Expressed in US Dollars)

10. SHARE CAPITAL AND RESERVES (continued)

During the year ended March 31, 2012, the Company was committed to issue shares including:

- (i) 50,000 common shares in connection with a financial consulting agreement for internet and marketing services at an aggregate fair value of \$4,500.
- (ii) This includes an additional 30,000 units to be issued at \$0.10 per unit with the private placement offering that was closed subsequent to the year end in the aggregate amount of \$3,000.

Subsequent to March 31, 2012, all of the commitment to issues shares were issued.

During the year ended March 31, 2011, the Company was committed to issue shares including:

- (iii) 300,000 common shares in connection with a consulting services contracts for investor relations at an aggregate fair value of \$51,750.
- (iv) 150,000 common shares in connection with a financial consulting agreement for internet and marketing services at an aggregate fair value of \$22,000.
- (v) 140,000 units to be issued at \$0.15 per unit with the private placement offering that was closed subsequent to the year end in the amount of \$21,001.

Committed common shares were valued based on the value of service provided by the respective parties.

(d) Stock options

The Company has a stock option plan ("Plan") that allows for stock options to be issued to employees, directors, officers and consultants on both a qualified and non-qualified basis. The aggregate number of common shares from which options and bonuses may be granted from time to time under the Plan shall not exceed 20% of the Company's issued and outstanding number of common shares and the number of common shares from which options and bonuses may be granted under the US incentive portion of the Plan shall not exceed 17% of the Company's issued and outstanding common shares. The Company's Plan provides that the terms of the options and the option prices shall be fixed by the board of directors or committee and subject to the requirements of the exchange on which the Company's common shares are traded or any other governing regulatory body, at the time of grant. Options granted shall expire after a period of eight years or terminate three months after the recipient ceases to be an employee of the Company.

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Notes to the Consolidated Financial Statements**March 31, 2012***(Expressed in US Dollars)***10. SHARE CAPITAL AND RESERVES (continued)**

The following table summarizes vested and exercisable stock option activity for the period between April 1, 2010 to March 31, 2012:

	Number of options	Weighted average exercise price
Balance, April 1, 2010	100,000	\$0.30
Granted	2,050,000	\$0.23
Cancelled	(100,000)	\$0.30
Committed to grant (Note 10 (b)(v))	6,647,195	\$0.15
Balance, March 31, 2011	8,697,195	\$0.18
Granted (Note 10 (b)(iv))	675,824	\$0.15
Balance, March 31, 2012	9,373,019	\$0.17

During the year ended March 31, 2012, the Company granted 7,323,019 stock options which included the 6,647,195 options it was committed to grant in 2011 (Note 10 (b) (v) (2011 – 2,050,000) to officers, employees, directors and other eligible persons. The weighted average fair value of stock options granted and committed of \$0.06 (2011 - \$0.14) per option was estimated using the Black-Scholes option pricing model with the following assumptions:

	Year Ended March 31,	
	2012	2011
Risk-free interest rate	2.00%	1.98% to 2.9%
Expected life	5 years	5 to 8 years
Expected volatility	100%	100%
Expected dividend per store	\$nil	\$nil

During the year ended March 31, 2012, the Company recorded stock-based compensation expense of \$4,824 for options that vested during the year. (Note 12)

During the year ended March 31, 2011, the Company recorded stock-based compensation expense of \$255,069 for the options vested during the year.

As at March 31, 2012, the following stock options were outstanding:

Expiry Date	Exercise Price	Number of Options
June 1, 2018	\$0.25	1,500,000
July 31, 2018	\$0.25	250,000
November 30, 2018	\$0.10	300,000
September 30, 2016	\$0.15	7,323,019
Total		9,373,019

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Notes to the Consolidated Financial Statements**March 31, 2012***(Expressed in US Dollars)***10. SHARE CAPITAL AND RESERVES (continued)****(e) Warrants**

Each of the Company's share purchase warrants is exercisable into one common share. The following summarizes warrants activity for the period from April 1, 2010 to March 31, 2012:

	Number of warrants	Weighted average exercise price
Balance, April 1, 2010	8,813,200	\$0.63
Warrants issued	20,509,092	\$0.22
Warrants forfeited	(90,354)	\$13.50
Balance, March 31, 2011	29,231,938	\$0.30
Warrants issued (Note 10 (b)(i) & 10(e)(iii))	3,988,710	\$0.12
Warrants forfeited	(8,289,484)	\$0.50
Warrants exercised (iii)	(4,800,000)	\$0.05
Balance, March 31, 2012	20,131,162	\$0.22

As at March 31, 2012, the following share purchase warrants were outstanding:

Expiry Date	Note	Exercise Price	Number of Warrants
May 31, 2012	(i)	\$0.30	875,000
January 14, 2013	(ii)	\$0.15	4,444,444
February 18, 2013		\$0.25	4,776,183
March 31, 2013		\$0.25	320,000
April 1, 2013		\$0.25	7,818,328
June 14, 2013		\$0.25	518,132
October 13, 2013		\$0.15	379,075
December 13, 2013		\$0.10	500,000
January 24, 2014		\$0.10	500,000
Total			20,131,162

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March 31, 2012

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10. SHARE CAPITAL AND RESERVES (continued)

(e) Warrants (continued)

- (i) 875,000 warrants exercisable at \$0.30 were issued to a third party exercisable until May 31, 2012 as a fee for arranging a finance transaction. The Company applied the fair value method using Black-Scholes option pricing model in accounting for warrants utilizing risk-free interest rate – 1.43%; expected life – 2 years ; expected volatility – 100%; and expected dividends – nil. The Company included the value of finders' warrants issued, \$67,529, as a charge to interest and finance costs in the consolidated statement of comprehensive loss for the year ended March 31, 2011. Subsequent to March 31, 2012, these warrants expired un-exercised.
- (ii) As part of the final negotiation with the July 2009 convertible note holders the Company agreed to issue an additional 4,047,686 warrants at \$0.15 for a two-year period ending January 14, 2013 and to reset the exercise price of the current outstanding 396,758 warrants from \$0.40 to \$0.15, resulting in a total of 4,444,444 warrants outstanding. See Note 9(a).
- (iii) On February 18, 2011, the Company issued units of securities at \$0.15 causing an increase of certain warrants to be issued to an agent from 36,601 to 2,708,497 warrants and a reset in the exercise price of the currently held 36,601 warrants from \$0.40 to \$0.15.

As part of a negotiation with a warrant holder during the year ended March 31, 2012, the Company agreed to issue an additional 2,091,503 warrants at \$0.05 for a two-year period ending July 16, 2013 and to reset the exercise price of the current outstanding warrants from \$0.40 to \$0.05.

The warrant holder exercised his 4,800,000 warrants on a cashless basis resulting in 800,000 common shares to be issued value at \$40,000. As a result of this exercise \$77,867 was charged to share capital with the corresponding debit to contributed surplus representing the cumulative charges to contributed surplus for these warrants. The 800,000 common shares were issued subsequent to year end.

- (iv) In 2010, the Company amended the terms of certain warrants with expiry date of July 17, 2010 issued previously as part of a private placement. The original expiration date of July 17, 2010 was extended to July 17, 2011. The warrant extensions resulted in additional stock-based compensation expense of \$91,844 which was charged to stock-based compensation as the holder of these warrants was a related party of the Company, with a corresponding credit to contributed surplus to the March 31, 2011 year end. The Company applied the fair value method using Black-Scholes option pricing model in accounting for the amended terms of the warrants utilizing risk-free interest rate – 1.6%; expected life – 1 year ; expected volatility – 100%; and expected dividends – nil. These warrants have expired unexercised.

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Notes to the Consolidated Financial Statements**March 31, 2012***(Expressed in US Dollars)***10. SHARE CAPITAL AND RESERVES (continued)****(f) Nature and Purpose of Equity and Reserves**

The reserves recorded in equity on the Company's balance sheet include 'Contributed Surplus', and 'Accumulated Deficit'.

'Contributed Surplus' is used to recognize the value of stock option grants and share warrants prior to exercise.

'Commitment to Issue Shares' includes common shares committed to management, consultants and investor relations companies under fundraising agreements, and committed under private placements for proceeds received.

'Accumulated Deficit During the Development Stage' is used to record the Company's change in deficit from earnings from period to period relating to the Company's current business plan after April 1, 2005.

'Accumulated Deficit From Prior Operations' was used to record the Company's change in deficit from earnings from the period of incorporation to April 1, 2005.

11. PRODUCT DEVELOPMENT EXPENSES

	Note	2012	2011
Product research	7	\$ 148,574	\$ 592,921
Site contractor	15	63,004	103,252
Consulting fees	10b & 15	737,702	824,124
		\$ 949,280	\$ 1,520,297

12. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	Year Ended March 31,	
		2012	2011
Investor relations	10b	\$ 98,639	\$ 384,636
Advertising and media development		25,014	49,817
Professional fees	15	421,935	531,571
Office and miscellaneous		306,604	238,775
Travel		107,728	260,654
Amortization		25,183	176,415
Rent	15	82,967	116,311
Stock-based compensation (recovery)	10b&d	(272,083)	2,162,925
Filing and transfer agent fees		13,393	19,692
		\$ 809,380	\$ 3,940,796

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Notes to the Consolidated Financial Statements**March 31, 2012***(Expressed in US Dollars)***12. GENERAL AND ADMINISTRATIVE EXPENSES (continued)**

Stock-based compensation (recovery)	Note	2012	2011
PP Agreement options	10b(iv)	\$ (330,976)	\$ 752,462
PP Agreement shares	10b(iv)(v)	54,069	1,063,551
2,050,000 option grant	10(d)	4,824	255,069
Warrant extension to related party	10(e)(iv)	-	91,843
		\$ (272,083)	\$ 2,162,925

13. INTEREST AND FINANCING COSTS

	Note	Year Ended March 31, 2012	2011
Debt interest	15	\$ 156,043	\$ 511,877
Accretion and other		3,091	2,674
		\$ 159,134	\$ 514,551

14. NON-OPERATING GAINS (LOSSES)

	Note	Year Ended March 31, 2012	2011
Foreign exchange (loss)		\$ (614)	\$ (146,948)
(Provision for) recovery of advances		(15,646)	2,997
Gain on settlement of debts	9	-	2,541,774
Gain on disposal of assets	6	42,825	-
Write-down of property and equipment	6	-	(250,748)
		\$ 26,565	\$ 2,147,075

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Notes to the Consolidated Financial Statements

March 31, 2012

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15. RELATED PARTY TRANSACTIONS

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

During the year end March 31, 2012, the Company incurred the following expenditures other than key management compensation charged by members of key management that included officers and directors or other parties that had significant influence over the financial and operating policy decisions of the Company, but did not have control over policies:

	Year ended March 31,	
	2012	2011
Product development - consulting	\$ 17,124	\$ 400,944
Debt interest	18,103	171,710
Professional fees	-	20,000
Rent	-	2,349
	\$ 35,227	\$ 595,003

The related party transactions are in the ordinary course of business.

At March 31, 2012 and 2011 and April 1, 2010, due to related parties was comprised of amounts owing to key management or former key management that included officers and directors or other parties that had significant influence over the financial and operating policy decisions of the Company, but did not have control over policies.

The amounts owing of \$941,661 (2011 - \$255,378 and April 1, 2010 - \$253,429) were non-interest bearing and had no specific terms of repayment for the year ended March 31, 2012.

At March 31 2012, included in promissory notes payable from Note 8 is \$199,997 (2011 - \$558,212 and April 1, 2010 - \$983,317) owing to key management and \$371,850 to former key management that included officers and directors or other parties that had significant influence over the financial and operating policy decisions of the Company, but did not have control over policies.

The Company has made payments to a company owned by former directors and officers of the Company pursuant to the Product License during the year ended March 31, 2012 and 2011. (Note 7).

Key Management Compensation

Key management personnel compensation comprised:

	Year ended March 31,	
	2012	2011
Salaries and short-term employee benefits	\$ 716,768	\$ 250,537
Share-based payments (recovery)	(62,176)	1,312,931
	\$ 654,592	\$ 1,563,468

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March 31, 2012

(Expressed in US Dollars)

16. COMMITMENTS

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

Leased premises

Subsequent to the year ended March 31, 2012, the Company entered into an agreement with a company controlled by a former director of the Company (collectively referred to as "GBS"). Under this agreement GBS would assume all past and present obligations and liabilities including but not limited to all the past due rent under the Company's lease in Launceston, Cornwall, UK. In addition, GBS has entered into a new lease for these premises. For this arrangement, the Company agreed to pay GBP 5,000 and issue a right to an exclusive sales territory within the UK. The GBP 5,000 (\$7,983) has been recorded to accounts payable and accrued liabilities.

Service agreements

During the year ended March 31, 2011, the Company entered into an agreement with a non-related party for investor relations services with the following terms, CDN \$3,000 (US \$3,022) a month and 300,000 common shares which were earned but not issued and included in commitment to issue shares as at March 31, 2011. The common shares were issued during the year ended March 31, 2012. (Note 10(c)). The agreement was cancelled subsequent the year ended March 31, 2012.

During the year ended March 31, 2011, the Company entered into an agreement with a non-related party for internet marketing services for a one year term, CDN \$1,500 (US \$1,512) a month and 50,000 common shares every quarter until it's maturity. As at March 31, 2011, the remaining 50,000 common shares were earned but not issued and included in commitment to issue shares as at March 31, 2011. The common shares were issued during the year ended March 31, 2012. (Note 10(c)). The agreement was cancelled during the year.

During the year ended March 31, 2012, the Company entered into an agreement with a non-related party to assist the Company with establishing a commercial site for its VertiCrop System for a four month term. Any extensions would be mutually agreed. Contingent to successfully securing the necessary financing and the ordering of VertiCrop components for the new commercial site the non-related party would receive a commission of CDN \$120,000 (US \$120,324) and 200,000 common shares. Subsequent to the year ended March 31, 2012, the non-related party earned its commission and common shares which are being paid and issued over a predetermined schedule.

Legal matters

The Company, in the normal course of its business, is subject to legal proceedings brought against it and its subsidiaries. For legal and other contingencies, if the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company will accrue a liability for the estimated loss. During the year ended March 31, 2012, Management became aware of a legal claim against the Company for property damage and contract default in the amount of approximately \$195,000 plus related costs. Subsequent to March 31, 2012, the Company and the plaintiff agreed to a partial settlement worth \$130,000 of this legal claim by permitting the claimant to remove its property from the site. The parties are still in negotiations with respect to the claim balance amount of approximately \$65,000. The Company has recorded a provision of \$66,766 for what it believes is the remaining obligation of the claim in accounts payable and accrued liabilities.

Registered Security

A third party has a registered a claim against the Company for repayment of an outstanding payable in the amount of CDN \$163,000 (\$ 163,440).

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17. FINANCIAL INSTRUMENTS

The Company has designated its cash and cash equivalents as loans and receivable, which is measured at amortized costs. Receivables are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, promissory notes payable, due to related parties are designated as other financial liabilities, which are measured at amortized cost. The convertible accrued interest payable is measured at fair value. Derivative instruments are recorded on the balance sheet at fair value and changes in fair value are recorded in the statement of comprehensive loss.

(a) Fair Value of Financial Instruments

The table below provides an analysis by valuation method of financial instruments that are measured at fair value subsequent to recognition. Refer to Note 3(g) for an explanation of the fair value hierarchy applied.

March 31, 2012	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value				
Derivative liability	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -

March 31, 2011	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value				
Derivative liability	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -

The derivative liabilities of \$2,541,774 were derecognized on extinguishment during the year ended March 31, 2011.

There are no assets or liabilities transferred from one level to another in the hierarchy during the year months ended March 31, 2012.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss is limited because at present the Company holds all of its surplus cash in an interest bearing account and has no other interest bearing financial assets. Interest bearing financial liabilities includes promissory notes payable and convertible notes. These are current financial liabilities and subject to limited interest rate risk due to their short-term nature and their fixed rate interest rates.

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17. FINANCIAL INSTRUMENTS (continued)

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash and cash equivalents and receivables. The credit risk associated with cash is minimal as cash has been placed with major financial institutions. The Company is exposed to significant credit risk with respect to receivables as the majority of the amount is due from a joint venture partner. The receivable from the joint venture partner was fully provided for at March 31, 2010. Management periodically assesses the recoverability of the receivables at a detailed level to mitigate the credit risk. The majority of the receivables relate to GST/HST from the Canada Revenue Agency which is expected to be recovered on filing its tax returns. The Company acknowledges that a portion of this receivable is pledged to settle an outstanding debt. See Note 16.

Foreign Exchange Risk

The Company operates internationally and is therefore exposed to foreign exchange fluctuations in the value of foreign currencies in relation to the United States dollar. The Company's foreign currency exposures comprise cash and cash equivalents, receivables, accounts payable, promissory notes payable and convertible notes denominated in British pounds and Canadian dollars as follows:

	Canadian dollars	US Dollars	British Pounds	US Dollars
Cash and cash equivalents	\$ 443,737	\$ 444,935	£ (2,122)	\$ (3,393)
Accounts payable and accrued liabilities	\$ 1,033,772	\$ 1,036,248	£ 74,113	\$ 118,484
Due to related parties	\$ 939,125	\$ 941,661		
Promissory notes payable	\$ 526,011	\$ 527,432		

A 10% change in the US dollar to the Canadian dollar and British Pound exchange rate at March 31, 2012 would have an effect on net loss of approximately +/- \$386,000 respect of the above financial instruments. Due to the short-term nature of these instruments, the risk is not considered material by management and no hedging is considered necessary for items exposed to foreign exchange risk.

Liquidity Risk

The following are the contractual maturities of financial liabilities at March 31, 2012:

In Dollars	Total	Up to 3 Months	3-12 Months	1 and 2 years
Accounts payable	1,765,023	1,765,023	-	-
Promissory notes payable	1,889,377	-	1,889,377	-
Due to related parties	941,661	941,661	-	-
Convertible notes	56,568	-	56,568	-
	4,652,629	2,706,684	1,945,945	-

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17. FINANCIAL INSTRUMENTS (continued)

As at March 31, 2011

In Dollars	Total	Up to 3 Months	3-12 Months	1 and 2 years
Accounts payable	1,601,161	1,601,161	-	-
Promissory notes payable	558,212	-	558,212	-
Due to related parties	255,378	255,378	-	-
Convertible notes	51,698	-	51,698	-
	2,466,449	1,856,539	609,910	-

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by monitoring closely its funding requirements through the use of operational and capital budgeting. The Company believes it does not have sufficient current cash resources and financing commitments in place to fully fund the development and commercialization of its VertiCrop™ product, and will have to raise additional funds. While it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

18. INCOME TAX

No provision for Canadian, U.S. or UK federal, provincial, or state income taxes has been recorded. The Company is significantly in arrears on filing its statutory income tax returns and is therefore unable to practicably determine the amount of its loss carry forwards at this time.

The Company expects to have net operating loss carry forwards to offset any taxable income that may exist for the years ended March 31, 2012 and 2011. Deferred income tax assets as of March 31, 2012 and 2011 and consist primarily of the tax effect of such net operating loss carry forwards.

The Company has effectively fully provided against any unused deferred income tax assets as of March 31, 2012, and 2011 and April 1, 2010 to reduce such deferred income tax assets to zero, as it is management's belief that realization of such amounts is not considered probable at this time.

In the ordinary course of business the Company transacts in multiple foreign jurisdictions and is subject to the tax regime of each foreign jurisdiction. The Company records tax contingencies for specific transaction when it determines that the likelihood of an unfavorable outcome is likely and the loss is reasonably estimable. Management currently believes that the Company is not exposed to tax contingencies that could have a material impact on the liquidity results of operations or financial condition of the Company. As at March 31, 2012, the Company has not recorded an accrual for any tax contingencies.

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Notes to the Consolidated Financial Statements**March 31, 2012***(Expressed in US Dollars)***19. SUPPLEMENTAL CASH FLOW INFORMATION****(a) Changes in non-cash working capital**

	Year ended March 31,	
	2012	2011
Receivables	\$ (55,115)	\$ (103,421)
Prepays	70,149	6,535
Inventory	-	11,578
Due to related parties, trade payables	686,283	186,829
Accounts payable	163,862	918,341
	\$ 865,179	\$ 1,019,862

Non cash flow transactions not disclosed elsewhere in the consolidated financial statements.

Supplemental cash flow information

	Year ended March 31,	
	2012	2011
Shares issued on conversion of convertible notes	\$ -	\$ 700,000
Fair value of agent's warrants extension	\$ -	\$ 138,462
Shares issued for promissory note interest	\$ -	\$ 140,553

20. SEGMENTED INFORMATION

The Company operates in one industry segment being the research, product development and resale of VertiCorp™ System. The Company's segment comprises of three geographic locations with no revenue during all years reported.

	2012	March 31,	2011	April 11
				2010
Property and equipment				
United States	\$ -	\$ -	\$ 490,034	
United Kingdom	101,074	137,324	507,562	
Canada	-	-	-	
	\$ 101,074	\$ 137,324	\$ 997,596	
	2012	March 31,	2011	April 1,
				2010
Assets held for sale				
United States	\$ 433,254	\$ 433,254	\$ -	
United Kingdom	-	-	-	
Canada	-	-	-	
	\$ 433,254	\$ 433,254	\$ -	

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21. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended March 31, 2012 and 2011 was based on the following:

	Year ended March 31,	
	2012	2011
Loss attributable to common shareholders	\$(1, 891,229)	\$(3,828,569)
Weighted average number of common shares outstanding	91,859,221	58,047,835

The calculation of diluted loss per share excludes the effects of shares committed and not issued, various conversions and the exercise of options and warrants and similar instruments totaling 33,062,970 (2011: 77,990,542) that would be anti-dilutive.

22. FIRST TIME ADOPTION OF IFRS

The Company's financial statements for the year ending March 31, 2012 are the first annual financial statements that are prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was April 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption. Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian generally accepted accounting principles ("pre-changeover Canadian GAAP"). In preparing opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-changeover Canadian GAAP.

Optional Exemptions

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover

Canadian GAAP to IFRS are as follows:

Business Combinations

The Company elected not to retrospectively apply IFRS 3, Business Combinations, to any business combinations that may have occurred prior to its Transition Date and such business combinations have not been restated.

Compound Financial Instruments

The Company has elected not to retrospectively separate the two portions of equity components of compound instruments for which the liability component is no longer outstanding at the date of transition to IFRS.

Share based Payments

The Company has elected not to apply IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before the Transition Date. The Company has also elected not to apply IFRS 2 to liabilities arising from share-based payment transactions that were settled before the date of transition to IFRS.

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22. FIRST TIME ADOPTION OF IFRS (continued)

Cumulative translation differences

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 - "The effects of Changes in Foreign Exchange Rates", for cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative translation differences and adjusted deficit by the same amount at the date of transition to IFRS. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

Mandatory Exceptions

Derecognition of Financial Assets and Liabilities

The Company has applied the derecognition requirements in IAS 39, Financial Instruments: Recognition and Measurement, prospectively from the Transition Date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39.

Estimates

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

Reconciliations of pre-changeover Canadian GAAP Equity and Comprehensive Income to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the statements of financial position and statements of comprehensive income as shown below have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no effect on the cash flows balances of the Company and therefore, no reconciliation of the statement of cash flows has been prepared.

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Notes to the Consolidated Financial Statements**March 31, 2012***(Expressed in US Dollars)***22. FIRST TIME ADOPTION OF IFRS (continued)****Reconciliation of Statement of Financial Position as at April 1, 2010 – Transition Date**

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		\$ 21,967	-	\$ 21,967
Receivables		125,532	-	125,532
Prepaid expenses		104,823	-	104,823
Inventories		11,578	-	11,578
Total current assets		263,900	-	263,900
Non-current assets				
Property and equipment		997,596	-	997,596
Product license		1	-	1
Total non-current assets		997,597	-	997,597
Total assets		\$ 1,261,497	-	\$ 1,261,497
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
Current liabilities				
Accounts payable and accrued liabilities		\$ 872,376	-	\$ 872,376
Promissory notes payable		1,033,837	-	1,033,837
Due to related parties		253,429	-	253,429
Convertible notes		1,371,305	-	1,371,305
Derivative liability	c	567,000	1,974,774	2,541,774
Total current liabilities		4,097,947	1,974,774	6,072,721
Shareholders' deficiency				
Share capital		39,011,557	-	39,011,557
Contributed surplus		5,023,657	(864,654)	4,159,012
Commitment to issue shares		126,000	-	126,000
Accumulated other comprehensive income	a	1,896,609	(1,896,609)	-
Accumulated deficit from prior operations		(2,265,325)	-	(2,265,325)
Accumulated deficit during the development stage	a, c	(46,628,948)	786,480	(45,842,468)
Total shareholders' deficiency		(2,836,450)	(1,974,774)	(4,811,224)
Total equity and liabilities		\$ 1,261,497	-	\$ 1,261,497

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Notes to the Consolidated Financial Statements**March 31, 2012***(Expressed in US Dollars)***22. FIRST TIME ADOPTION OF IFRS (continued)****Reconciliation of Statement of Financial Position as at March 31, 2011**

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		\$ 31,936	-	\$ 31,936
Receivables		300,233	-	300,233
Prepaid expenses		98,288	-	98,288
Inventories		-	-	-
Total current assets		430,457	-	430,457
Non-current assets				
Assets held for sale		433,254	-	433,254
Property and equipment		137,324	-	137,324
Product license		1	-	1
Total non-current assets		570,579	-	570,579
Total assets		\$ 1,001,036	-	\$ 1,001,036
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
Current liabilities				
Accounts payable and accrued liabilities		\$ 1,601,161	-	\$ 1,601,161
Promissory notes payable		558,212	-	558,212
Due to related parties		255,378	-	255,378
Convertible notes		51,698	-	51,698
Total current liabilities		2,466,449	-	2,466,449
Shareholders' deficiency				
Share capital	c	43,808,617	46,618	43,855,235
Contributed surplus	c, d	6,769,270	(1,317,354)	5,451,916
Commitment to issue shares	e	1,403,320	(245,018)	1,158,302
Equity component of convertible note		5,496	-	5,496
Accumulated other comprehensive income	a	1,896,609	(1,896,609)	-
Accumulated deficit from prior operations		(2,265,325)	-	(2,265,325)
Accumulated deficit during the development stage	a, c, d, e	(53,083,400)	3,412,363	(49,671,037)
Total shareholders' deficiency		(1,465,413)		(1,465,413)
Total equity and liabilities		\$ 1,001,036	-	\$ 1,001,036

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Notes to the Consolidated Financial Statements**March 31, 2012***(Expressed in US Dollars)***22. FIRST TIME ADOPTION OF IFRS (continued)****Reconciliation of the Statement of Comprehensive Loss for the year ended March 31, 2011**

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
EXPENSES				
Product development		\$1,520,297	-	\$1,520,297
General and administrative	d,e	4,146,255	(205,459)	3,940,796
Loss from operations		(5,666,552)	205,459	(5,461,093)
Interest and financing costs		(514,551)		(514,551)
Non-operating expenses	c	(273,349)	2,420,424	2,147,075
Net loss and comprehensive loss attributable to equity holders		\$(6,454,452)	2,625,883	\$(3,828,570)
Loss per share – basic and diluted		\$(0.11)	0.04	\$(0.07)
Weighted average number of common shares outstanding		58,047,835		58,047,835

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22. FIRST TIME ADOPTION OF IFRS (continued)

IFRS Transition Differences

The following is a summary of the significant accounting differences considered as part of the IFRS transition project and, where appropriate, the quantification of the adjustments required as of the transition date and for the comparative period.

Functional currency and foreign exchange translation

Canadian GAAP requires an entity to determine whether a subsidiary is an integrated or self-sustaining entity based on the functional currency of the parent company. This determination dictates the method of foreign exchange translation for the consolidated financial statements. Under IFRS the Company is required to assess its functional currency independently for each entity within a consolidated group. The Company has completed its assessment and has determined that there is no change to the functional currency of its entities.

Componentization of property and equipment

IFRS requires entities to componentize all long lived assets and record amortization on a component-by-component basis whereas under Canadian GAAP the concept of componentization may not be applied on as rigorous a basis as under IFRS therefore differences in practice may arise. The Company has completed its assessment on all long-lived assets in order to determine if a material difference exists between the application of componentization under Canadian GAAP and that to be applied under IFRS. The Company has determined that there is no material impact.

Adjustments on transition to IFRS:

(a) Cumulative translation differences

At the date of transition under Canadian GAAP there was a cumulative translation adjustment relating to the Company's change in functional currency in 2011. The Company has chosen to apply the related IFRS 1 election and has eliminated the cumulative translation difference against accumulated deficit on transition.

(a) Cumulative translation differences (continued)

Impact on Consolidated Statements of Financial Position

	March 31, 2011	April 1, 2010
Decrease accumulated other comprehensive income	\$ (1,896,609)	\$ (1,896,609)
Decrease accumulated deficit during development stage	\$ 1,896,609	\$ 1,896,609

(b) Statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company, accordingly no separate reconciliation is presented.

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22. FIRST TIME ADOPTION OF IFRS (continued)

(c) Derivative liability difference on convertible note

The Company's outstanding convertible notes at April 1, 2010 included embedded conversion options that were not accounted for as derivative liabilities under pre-transition Canadian GAAP. At the date of transition, these conversion options met the criteria of a derivative instrument liability because the terms of the convertible note require that the conversion price be adjusted in certain circumstances that do not meet the "fixed-for-fixed" criteria. The impact of this accounting resulted in an increase in the derivative liability from \$567,000 to 1,374,774 at April 1, 2010.

In connection with this convertible note, the Company issued warrants with a down round provision which met the criteria of a derivative instrument liability. The impact of this accounting resulted in an increase in the derivative liability by \$1,167,000, and a decrease in contributed surplus of \$864,645 at April 1, 2010.

During the year ended March 31, 2011, the derivative liability under IFRS of \$1,374,774 and \$1,167,000 was fully derecognized in connection with the repayment and settlement of the July 2008 convertible note, resulting in a reconciling difference of \$1,974,774 between gain on settlement of debt in net loss under Canadian GAAP to IFRS. Under Canadian GAAP, a warrant modification entry was made on reset of the exercise price and additional warrants issued to the noteholders. Under IFRS, this entry would not have occurred given the instrument was a derivative and fair valued. Therefore, \$46,618 was reversed between share capital and contributed surplus representing additional share issuance cost and \$445,650 was reversed from contributed surplus with the corresponding entry being recorded to deficit.

Impact on Consolidated Statements of Financial Position and Comprehensive Loss

	March 31, 2011	April 1, 2010
Increase in derivative liability	\$	\$ (1,974,774)
Decrease in contributed surplus	492,268	864,645
Increase in share capital	(46,618)	-
Increase in accumulated deficit during development stage	\$ (445,650)	\$ 1,110,129

(d) Stock options

Under Canadian GAAP, certain options were remeasured at each vesting date. Under IFRS, the options should be measured once at the initial grant date, and expensed over the vesting period.

Impact on Consolidated Statements of Financial Position and Comprehensive Loss

	March 31, 2011	April 1, 2010
Increase in stock-based compensation	\$ 39,559	\$ -
Increase in contributed surplus	\$ (39,559)	\$ -

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22. FIRST TIME ADOPTION OF IFRS (continued)

(e) Measurement Date

Under Canadian GAAP, certain common shares issued were measured at the date they were earned as this was the most reliable measurement date. Under IFRS, these common shares were measured at grant date since the individuals met the definition of an employee. The impact was a reduction in the March 31, 2011 stock-based compensation and commitment to issue shares by \$245,018.

Impact on Consolidated Statements of Financial Position and Comprehensive Loss

	March 31, 2011	April 1, 2010
Decrease in stock-based compensation	\$ (245,018)	\$ -
Decrease in commitment to issue shares	\$ 245,018	\$ -

23. SUBSEQUENT EVENTS

- On May 2, 2012, the Company issued an unsecured convertible debenture in the amount \$500,000 accruing interest at 12% per annum with a term to April 19, 2014. Both principal and interest may be converted into units at \$0.10 per unit, with each unit consisting of one common share and one three-quarter share purchase warrant, one whole share purchase warrant is for five-year term with an exercise price of \$0.15.
- On April 13, 2012, the Company entered into a Loan Agreement (the "Loan") in the amount of \$1,000,000 CDN (the "Term Loan") accruing interest at 8% plus the lenders prime plus 2% to a maximum of 14% per annum. The Loan also provides for a revolving loan of \$250,000 CDN (the "Operating Loan") accruing interest at the same rate as the Term Loan. The Term Loan matures on April 15, 2019 and the Operating Loan is on demand. April 15, 2012. The loans are secured by a lien on, and a security interest in, all present and future unencumbered assets of the Company. The Company may repay up to 15% of the outstanding principal amount of the Term Loan on the second and third anniversary date, up to 25% on the fourth anniversary date of the initial loan, thereafter the balance in whole or in part without penalty or prepayment compensation. The loans are to be used to build and operate the Company's first commercial VertiCrop System in downtown Vancouver BC. In addition, the lender will receive for 15 years a monthly 3% royalty based on gross revenues from the operation of the VertiCrop System up until the earlier of the maturity date or the date the Company has repaid the loan in full. Thereafter, the royalty will be reduced to 1.5%.
- On April 5, 2012 the Company entered into a License Agreement to license the parking space consisting of the roof of a parking facility located in Vancouver BC. The space will be used for the purpose of erecting one or two greenhouses that will incorporate the Company's VertiCrop System. The initial term of the license is for 10 years with an option of two five year renewals subject to mutual agreement with the Licensor. The monthly rental fees for the entire roof top are \$4,800 CDN or \$2,400 CDN for each level. It is the Company's intention to erect only one greenhouse and rent one level at this time.