



GLG Life Tech  
Corporation  
Management  
Discussion &  
Analysis

December 31

**2007**

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[Dated: March 28, 2008.]

# GLG Life Tech Corporation Management Discussion & Analysis

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## Forward-Looking Statements

Certain statements in this management discussion and analysis and the information incorporated herein by reference constitute “forward-looking statements”. Such forward-looking statements include, without limitation, statements evaluating market and general economic conditions and discussing future-oriented costs and expenditures. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes” or variations of such words and phrases or words and phrases that state or indicate that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. While we have based these forward-looking statements on our current expectations about future events, the statements are not guarantees of our future performance and are subject to risks, uncertainties, assumptions and other factors which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Such factors include amongst others the effects of general economic conditions, changing foreign exchange rates and actions by government authorities, uncertainties associated with legal proceedings and negotiations, industry supply levels, competitive pricing pressures and misjudgements in the course of preparing forward-looking statements. Specific reference is made to the risks described herein under the heading “Risk Factors” for a discussion of these and other sources of factors underlying forward-looking statements. In light of these factors, the forward-looking events discussed in this management discussion and analysis might not occur. Further, although the Company has attempted to identify factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. As there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements, readers should not place undue reliance on forward-looking statements.

This management’s discussion and analysis (“MD&A”) relates to the consolidated financial condition and results of operations of GLG Life Tech Corporation (“GLG”) together with its subsidiaries in the People’s Republic of China (“China”). As used herein, the word “Company” means, as the context requires, GLG and its subsidiaries. The common shares of GLG are listed on the Toronto Stock Exchange (the “Exchange”) under the symbol “GLG”. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of Canadian generally accepted accounting principles (“Canadian GAAP”). This MD&A should be read in conjunction with GLG’s audited consolidated financial statements for the year ended December 31, 2007, and notes thereto. Additional information relating to GLG Life Tech Corporation including its Annual Information Form can

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be found on GLG's web site at [www.glglifetech.com](http://www.glglifetech.com) or on the SEDAR web site for Canadian regulatory filings at [www.sedar.com](http://www.sedar.com).

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. GLG bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The Consolidated financial statements and Management's discussion and analysis were reviewed by GLG's Audit Committee and approved by GLG's Board of Directors.

Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

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

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## Overview

GLG is a world leader in the production of high quality stevia extract. Our vertically integrated strategy includes stevia seed development, growth and refining operations as well as final manufacturing of formulated product for consumers. Stevia is a natural, calorie free sugar substitute, derived from the leaves of the stevia plant scientifically known as *Stevia Rebaudiana Bertoni*.

Upon the harvesting of the stevia leaf it is further processed by GLG for the commercial sale of the resulting industrial powder to the food and beverages industry. Cargill announced in May 2007 it will be producing the world's first commercial scale natural, zero-calorie high intensity sweetener, rebiana. GLG Life Tech is a strategic supplier to Cargill for high quality stevia extract for its rebiana product. The two companies have worked in close partnership to develop a world-class supply chain including leaf supply and extract manufacturing.

GLG is one of the largest low cost/high quality producers of stevia extract in the world today. By vertically integrating our operations, high quality stevia is produced through each step of the growing and production process including the development of seeds, growth of seedlings, planting, leaf harvesting, extraction and refining.

GLG has its primary extract manufacturing capabilities and agricultural assets located throughout China. GLG entered into the stevia production business in December 2006 with the acquisition of 100% ownership of Qingdao Runde Biotechnology Company, Ltd. ("Runde"). This turnkey plant provided GLG with an annual capacity for high grade stevia extract of 200, metric tons (MT). The facility is currently being upgraded to 500 MT annual capacity of high grade stevia extract. (See section "2007 Capital Expenditures" for further information on this project). The Company believes demand for stevia could increase significantly over the coming years and is investing in the capacity needed for projected growth.

GLG experiences a competitive advantage due to patent-pending seedlings that have higher Rebaudioside A (Reb A) content (the sweet component of the stevia leaf), vertically integrated operations (R&D, seed base, and processing facilities), proprietary processing technology and lower labour costs given the location of its operations.

Stevia is a safe, healthy alternative to artificial substitutes and sugar. It includes no additional chemicals and provides a healthy, 100% natural solution for consumers. Indigenous to Paraguay, stevia has been used to sweeten food and beverages for over 200 years.

Beyond GLG's core stevia production business, the Company is involved in sports nutrition, research, preventative health software, manufacturing, retail chain stores, and medical clinics. The Company's goal in these divisions is to reach people by providing healthy solutions for better living.

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GLG's other non-core business includes procurement revenues from its relationship with the Chinese retail chain Yong He Tang Chain Stores Limited (YHT). Yong He Tang (YHT) is a retail health store offering vitamins, minerals, nutraceuticals and other health products from around the world. First opened in May of 2004, the model location soon blossomed into an aggressive franchise program that has now expanded into 24 provinces and over 120 cities throughout mainland China. Targeting the over-50 population segment, the stores, kiosks and sections now totalling more than 1,200 locations, have experienced tremendous success and the network continues to grow. Currently, GLG exclusively supplies or approves product to YHT and at times aids in areas of marketing and expansion.

## 2007 Corporate Developments

### Renewable Five Year Supply Agreement with Major Customer Signed

In July 2007, the Company signed a material renewable 5 year supply contract with Cargill, of Wayzata, MN, for the supply of high grade stevia extract.

### Stevia Seedlings Company Acquisition

On July 1, 2007, the Company signed a letter of agreement to purchase all of the issued and outstanding shares of Agricultural High Tech Developments Limited ("AHTD") from the shareholders of AHTD. The purchase price for the acquisition of AHTD was 12,500,000 common shares of the Company. 30% of the shares were to be issued upon closing of the transaction, 35% of the shares issued upon AHTD providing seedlings for planting 30,000 mu of stevia which would yield 5,000 metric tons of leaf in 2008 and the balance of the shares issued upon AHTD providing seedlings for planting 60,000 mu of stevia which will yield 8,000 metric tons of leaf in 2009. [1 mu is a unit of measure equal to approximately 0.165 acres or 0.06677323 hectares.] The deal was formally closed on December 27, 2007 and 3.75 million GLG common shares were issued to the Seller on that date. 8.75 million common shares have been reserved for issuance contingent upon the satisfactory delivery against specified performance targets in 2008 and 2009.

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## Investment Agreements with Mingguang and Dongtai Governments

On August 16, 2007, American GLG Group (owned by Dr. Luke Zhang), a related party of the Company, signed preliminary investment agreements with two government authorities, the Mingguang People's Government of China and the Dongtai People's Government of China. American GLG Group was used to expedite the signing of the preliminary investment agreements with the two government authorities and has since assigned all of its rights and obligations under these agreements to the Company without charge. The preliminary investment agreements set out, and the anticipated land use agreements (which are contemplated in the preliminary investment agreements) will set out in further detail, the investments that must be made to secure exclusive rights to acquire the stevia leaf and to construct and operate new stevia manufacturing facilities in the applicable growing areas. These exclusive rights to acquire leaf and construct stevia manufacturing facilities in the Mingguang and Dongtai regions, respectively, will be for a 10 year period. It is expected that the Company will supply seedlings provided from its seed base operation for the growing of the high quality stevia in the applicable growing areas.

## Establishment of new subsidiaries

GLG continues to see strong Chinese Government support for the stevia business in China as the Government has named stevia a "high tech agricultural product" which means it will receive a higher priority for support.

During 2007, GLG established three new subsidiaries to further invest in Mingguang and Dongtai and to establish seed base and R&D operations.

## TSX Listing

On September 30 2007, the Company submitted an application to list on the TSX Exchange (Main Board). The Company's shares were listed and began trading on the TSX on December 11, 2007 and ceased trading on the CNQ exchange on December 12, 2007.

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## Subsequent Events

On January 30th, 2008, GLG amended its three warrant agreements issued to Cargill in July of 2007.

1. The first share purchase warrant entitled Cargill to purchase up to 14,365,642 common shares of GLG, at an exercise price of \$3.50 until January 31, 2008. The expiry date as to the exercise of 3,591,411 common shares under the first warrant was extended to February 29, 2008, and the expiry date as to the exercise of 7,182,281 common shares was extended to March 31, 2009. Cargill assigned the first warrant, as to the right to purchase 3,591,410 common shares on or before January 31, 2008, and as to the right to purchase 5,591,410 common shares on or before March 31, 2009, to two investment funds managed by Black River Asset Management LLC, a subsidiary of Cargill.
2. The second share purchase warrant entitled Cargill to purchase common shares of GLG equal to 10% of GLG's common shares outstanding on a fully diluted basis as at January 30, 2008. This percentage was decreased to 5%. The warrant exercise price is \$4.44 (based on the average closing price of the GLG common shares for the 10 trading days prior to January 31, 2008.) and the number of shares was determined to be 5,223,913 for the second Cargill warrant.
3. The third share purchase warrant issued to Cargill was cancelled.
4. Black River Asset Management exercised the first tranche of the first Cargill warrant on January 31<sup>st</sup>, 2008. GLG issued 3,591,410 shares and received \$12.5 million Canadian from Black River Asset Management.

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## Results

The following results have been derived from and should be read in conjunction with the consolidated financial statements of GLG for the year ended December 31, 2007, and its annual consolidated financial statements for 2006. Certain 2006 comparative figures have been reclassified to conform to the current financial statement presentation.

| In thousands Canadian                               | Q4 07   | Q4 06  | % Change | 2007     | 2006     | % Change |
|---|---------|--------|----------|----------|----------|----------|
| <b>Consolidated Revenue</b>                         | \$3,727 | \$994  | 275%     | \$9,157  | \$1,410  | 549%     |
| <b>Consolidated Gross Profit</b>                    | \$902   | \$478  | 89%      | \$2,657  | \$861    | 209%     |
| <b>% of Revenue</b>                                 | 24%     | 48%    | (24%)    | 29%      | 61%      | (32%)    |
| <b>Consolidated Expenses</b>                        | \$538   | \$223  | 141%     | \$1,607  | \$701    | 129%     |
| <b>% of Revenue</b>                                 | 14%     | 22%    | (8%)     | 18%      | 50%      | (32%)    |
| <b>Income from Operations (Loss)</b>                | \$364   | \$255  | 43%      | \$1,050  | \$160    | 556%     |
| <b>% of Revenue</b>                                 | 10%     | 26%    | (16%)    | 11%      | 11%      | -        |
| <b>Other Income (Expenses)</b>                      | \$29    | \$59   | (51)%    | (\$418)  | \$49     | (953)%   |
| <b>% of Revenue</b>                                 | 1%      | 6%     | (5%)     | (4.5%)   | 3%       | (7.5%)   |
| <b>Net Income (loss) before Tax</b>                 | \$393   | \$280  | 40%      | \$632    | \$209    | 202%     |
| <b>% of Revenue</b>                                 | 11%     | 28%    | (17%)    | 7%       | 15%      | (8%)     |
| <b>Net Income (loss) after Tax</b>                  | \$393   | \$280  | 40%      | \$632    | \$209    | 202%     |
| <b>Earnings per share (Basic)</b>                   | \$0.006 | 0.007  | (17%)    | \$0.0124 | \$0.0064 | 94%      |
| <b>Earnings per share (Fully Diluted)</b>           | \$0.00  | \$0.00 | -        | \$0.0092 | \$0.0054 | 70%      |
| <b>Consolidated Depreciation &amp; Amortization</b> | \$114   | \$43   | 165%     | \$492    | \$44     | 1018%    |
| <b>% of Revenue</b>                                 | 3%      | 4%     | (1%)     | 5%       | 3%       | (2%)     |
| <b>EBITDA (1)</b>                                   | \$478   | \$264  | 81%      | \$1,542  | \$205    | 652%     |
| <b>% of Revenue</b>                                 | 13%     | 27%    | (14%)    | 17%      | 15%      | 2%       |

- (1) EBITDA is a non-GAAP financial measure. GLG calculates it by adding to net income before taxes (1) depreciation and amortization expense reported on the income statement, (2) Other Income

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(Expenses) and (3) share compensation expense. This might not be the same definition used by other companies.

## Results from Operations

The following results from operations has been derived from and should be read in conjunction with the consolidated financial statements of GLG for the year ended December 31, 2007, and its annual Consolidated financial statements for previous years. Certain 2006 and 2005 comparative figures have been reclassified to conform to the current financial statement presentation.

### Revenues

Consolidated revenues for the year ending December 31, 2007 were \$9.2 million, an increase of 549% over \$1.4 million in revenue for 2006. Revenues for the fourth quarter 2007 were \$3.7 million, an increase of 275% over fourth quarter 2006 revenues of \$1.0 million.

Stevia revenue rose to \$8.2 million for the full year in 2007, an increase of 987% over \$0.75 million in 2006. GLG shipped 113 metric tons of stevia products (includes all grades of stevia products) in 2007 against 2006 shipments of 15 metric tons. The Company signed a renewable five-year contract for high grade stevia extract with a major multinational food company in July 2007 and as a result GLG has been increasing the capacity at its Runde facility in Qingdao in the Shandong province of China to meet the capacity requirements of this contract. The capacity expansion project for Runde is covered in the 2007 Capital Expenditures of this MD&A.

The Company's other business line also saw growth in revenues in 2007. Procurement revenue generated through its contract with the YHT health chain store network in China rose 47% in 2007. Procurement revenues in 2007 were \$0.96 million versus 2006 revenues of \$0.65 million.

### Consolidated Gross Margin

Consolidated gross margin for the year ending December 31, 2007 was \$2.7 million, an increase of 209% over \$0.9 million in gross margin for 2006. Gross margin for the fourth quarter 2007 was \$0.9 million, an increase of 102% over fourth quarter 2006 gross margin of \$0.4 million. Consolidated gross margin reflects both margins from GLG stevia operations as well margin from procurement revenues related to YHT chain stores business. Additional discussion on gross margin results is presented in the Summary Quarterly Results section. Gross margin includes all direct and indirect manufacturing costs including depreciation.

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## EBITDA

EBITDA for the year ending December 31, 2007 was \$1.5 million, an increase of 652% over \$0.2 million in EBITDA for 2006. EBITDA for the fourth quarter 2007 was \$0.5 million, an increase of 81% over fourth quarter 2006 EBITDA of \$0.3 million. The increase in EBITDA is attributable to increased capacity utilization of the stevia manufacturing assets driven by increased stevia demand and revenues as well as higher procurement revenues.

The following table provides reconciliation to Canadian GAAP Net Income.

| In thousands Canadian               | Q4 07 | Q4 06  | 2007    | 2006  |
|-------------------------------------|-------|--------|---------|-------|
| Net Income (loss)                   | \$393 | \$280  | \$632   | \$209 |
| Add:                                |       |        |         |       |
| Depreciation and Amortization       | \$114 | \$43   | \$492   | \$44  |
| Net Interest Expense (Income)       | (29)  | (\$59) | \$418   | (49)  |
| Non-Cash Share Compensation Expense | -     | -      | -       | -     |
| EBITDA                              | \$478 | \$264  | \$1,542 | \$205 |

## Net Income

Net income for the year ending December 31, 2007 was \$ 631,576, an increase of 202% over \$209,077 in net income for 2006. Net Income for the fourth quarter 2007 was \$ 392,983, an increase of 40% over fourth quarter 2006 net income of \$280,318. Basic earnings per share (EPS) was \$0.0124 for the full year 2007 compared with \$0.0064 for the full year 2006.

## Foreign Exchange gains (losses)

GLG reports in Canadian dollars but earns most of its revenues and incurs most of its expenses in Chinese Yuan (“RMB”). The other major currency that can affect GLG’s financial results is the US dollar. GLG incurred a foreign currency loss of \$54,488 in 2007 on US dollar denominated transactions and RMB transactions. These foreign exchange losses were mainly driven by the appreciation of the Canadian dollar relative to the US dollar in 2007 which affected the value of US dollar loans due to GLG from YHT (\$US 1.87 million). Certain foreign exchange losses reported earlier in the year were reclassified to foreign currency translation gains and (losses) in the fourth quarter. Impacts of the appreciation of the Chinese Yuan against the Canadian dollar are shown separately under the Cumulative Translation Adjustment account on the Balance Sheet. The balance of this account was (\$1,562,250) on December 31, 2007.

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## Consolidated Expenses

| In thousands Canadian        | Q4 07 | Q4 06 | % Change | 2007    | 2006  | % Change |
|------------------------------|-------|-------|----------|---------|-------|----------|
| <b>Consolidated Expenses</b> | \$538 | \$223 | 141%     | \$1,607 | \$701 | 129%     |
| <b>% of Revenue</b>          | 14%   | 22%   | (8%)     | 18%     | 50%   | (32%)    |

Consolidated expenses include sales, general and administration costs (SG&A) plus depreciation and amortization expenses on non-manufacturing fixed assets.

The SG&A increase for Q4 2007 over Q4 2006 was driven by an increase in consolidated salary and wages, corporate professional services and consolidated office and occupancy costs. There were a number of corporate developments that drove the increase in GLG's professional services expenses including several financings and increased audit fees. Professional services costs accounted for approximately 29% of the 2007 SG&A costs. GLG also increased its staff both in China and Canada which increased salaries and consulting expenses over 2006 levels as it further developed its business during 2007. Consolidated salary, wages and consultancy costs accounted for 28% of the 2007 SG&A costs. Consolidated office and occupancy related costs accounted for 25% of the 2007 SG&A costs and were also increased as GLG's business expanded in China.

GLG's incurred a one-time TSX sponsorship expense of \$310,000 in 2007 associated with GLG's listing application with the TSX. These fees have been accounted for as share issue costs which is part GLG's share capital account. \$160,000 of sponsorship fees originally reported in Q3 as part of Sales, General and Administration (SG&A) costs are part of the share issues costs and have reduced the Q4 reported SG&A costs accordingly.

## Consolidated Depreciation and Amortization Expense

| In thousands Canadian                             | Q4 07 | Q4 06 | % Change | 2007  | 2006 | % Change |
|---|-------|-------|----------|-------|------|----------|
| <b>Consolidated Depreciation and Amortization</b> | \$114 | 43    | 165%     | \$492 | \$44 | 1018%    |
| <b>% of Revenue</b>                               | 3%    | 4%    | (1%)     | 5%    | 3%   | (2%)     |

The Depreciation and amortization increase for Q4 2007 over Q4 2006, reflects the fact that GLG's stevia operations did not commence until December 2006 where only one month of depreciation was reflected. Depreciation is included in the cost of goods sold as well as in the consolidated expenses reported below gross profit on the Income Statement. The above table provides a summary of total depreciation and amortization expenses reported.

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## Other Income (Expenses)

| In thousands Canadian  | Q4 07 | Q4 06 | % Change | 2007    | 2006 | % Change |
|------------------------|-------|-------|----------|---------|------|----------|
| Other Income (Expense) | \$29  | 59    | (51)%    | (\$418) | \$49 | (953)%   |
| % of Revenue           | 1%    | 6%    | (5%)     | (4.5%)  | 3%   | (7.5%)   |

GLG's interest expenses increased in 2007 driven by a \$6,000,000 Canadian convertible debenture it arranged in June 2007 as well as interest due on a customer prepayment of US\$7,000,000 also arranged in June 2007.

### Convertible debenture

The use of proceeds for the convertible debenture was 50% to finance Runde 500 MT plant upgrade and 50% for working capital purposes. The interest rate on the convertible debenture was 12% and had two warrants attached. The effective interest rate was 18% after reflecting the discount on the convertible debenture. This discount is amortized over the term of the convertible debenture which is 12 months.

### Customer Prepayment

The interest rate on the customer prepayment is LIBOR + 3.25%. The average interest rate on the customer prepayment for 2007 was 8.6%. The use of proceeds for the customer prepayment was 100% to finance stevia leaf purchase for this customer's order. GLG will repay the prepayment as it ships product against this customers order.

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## Incomes Taxes

GLG is subject to Canadian income taxes, while its subsidiaries in China are subject to Chinese income taxes. All Chinese subsidiaries were formed before 2008, they are fully exempted from Chinese income taxes for the first two profitable years and will be taxed at half of the 33% statutory rate in China for the following three years.

## Selected Annual Information (000`S)

| In thousands Canadian           | 2007     | 2006     | 2005      |
|---------------------------------|----------|----------|-----------|
| Revenues                        | \$9,157  | \$1,410  | \$451     |
| Gross Profit                    | \$2,657  | \$861    | \$451     |
| Net Income (loss)               | \$632    | \$209    | (\$2,004) |
| EBITDA                          | \$1,542  | \$205    | (\$175)   |
| EPS                             | \$0.0124 | \$0.0064 | \$0.0     |
| Total Assets                    | \$89,014 | \$21,363 | \$1,579   |
| Total Liabilities               | \$14,261 | \$2,096  | \$265     |
| Total Shareholders' Equity      | \$74,753 | \$19,266 | \$1,314   |
| Employees                       | 215      | 71       | -         |
| Stevia Leaf Purchased (MT)      | 7,086    | 406      | -         |
| Stevia Metric Tons (MT) Shipped | 113      | 15       | -         |
| YHT Store Locations             | 1,318    | 979      | 428       |

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## Summary Quarterly Results

The following summary quarterly results have been derived from and should be read in conjunction with the consolidated financial statements of GLG for the year ended December 31, 2007, and its annual consolidated financial statements for previous years.

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

| In thousands Canadian       | 2007    |         |         |         | 2006  |       |        |       |
|-----------------------------|---------|---------|---------|---------|-------|-------|--------|-------|
|                             | Q4      | Q3      | Q2      | Q1      | Q4    | Q3    | Q2     | Q1    |
| <b>Consolidated Revenue</b> | \$3,727 | \$2,258 | \$1,297 | \$1,874 | \$994 | \$184 | \$127  | \$104 |
| <b>Gross Margin</b>         | \$896   | \$823   | \$472   | \$465   | \$444 | \$185 | \$128  | \$104 |
| <b>Gross Margin %</b>       | 24%     | 36%     | 36%     | 25%     | 45%   | 100%  | 100%   | 100%  |
| <b>EBITDA</b>               | \$478   | \$431   | \$225   | \$382   | \$264 | \$50  | \$(49) | \$(4) |

## Segmented Quarterly Results

The Company revenue generating activities are in two reportable segments of (1) stevia manufacturing and sales and (2) royalty fees and the procurement of health and nutritional products, including protein and vitamin supplements, food supplements and dietary supplements.

The Company's management evaluates segment performance geographically. Revenue and total assets are segmented into China manufacturing and China and Canadian procurement.

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### Stevia Operations Quarterly Results

| In thousands Canadian | 2007    |         |         |         | 2006  |     |     |     |
|-----------------------|---------|---------|---------|---------|-------|-----|-----|-----|
|                       | Q4      | Q3      | Q2      | Q1      | Q4    | Q3  | Q2  | Q1  |
| <b>Stevia Revenue</b> | \$3,356 | \$2,003 | \$1,089 | \$1,746 | \$753 | \$- | \$- | \$- |
| <b>Gross Margin *</b> | \$576   | \$569   | \$356   | \$337   | \$204 | \$- | \$- | \$- |
| <b>Gross Margin %</b> | 17%     | 28%     | 33%     | 19%     | 27%   | -   | -   |     |

GLG's stevia business is affected by seasonality. The harvest of the stevia leaves typically occurs from the end of the second quarter (ending June 30) through July and August of each year. This period has historically been a slow time for stevia manufacturers and shipments typically decrease over this period before the harvest is complete and delivery of the new stevia leaf takes place. In 2007, the stevia leaf harvest occurred slightly later with the leaf arriving on site at Runde in late August. Gross margin is significantly influenced by the quality of the stevia leaf crop harvested in any given year. GLG's production management saw a generally poorer quality stevia leaf crop collected in 2007 than seen in previous years. The stevia gross margin for Q4 2007 reflects the impact of the poorer quality stevia leaf received. GLG's plan to improve gross margins is explained in the Outlook section under the headings, "GLG Seed base and R&D Outlook" and "Greenhouse Operations". GLG's operations in China are also impacted by Chinese New Year celebrations during the month of February each year where many businesses close down operations for approximately two weeks.

\* Gross margin for stevia includes all direct and indirect manufacturing costs including equipment depreciation.

# GLG Life Tech Corporation Management Discussion & Analysis

## Procurement Operations Quarterly Results

| In thousands Canadian      | 2007  |       |       |       | 2006  |       |       |       |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
|                            | Q4    | Q3    | Q2    | Q1    | Q4    | Q3    | Q2    | Q1    |
| <b>Procurement Revenue</b> | \$370 | \$256 | \$208 | \$128 | \$240 | \$184 | \$127 | \$104 |
| <b>Gross Margin</b>        | \$320 | \$254 | \$116 | \$129 | \$240 | \$185 | \$128 | \$104 |
| <b>Gross Margin %</b>      | 86%   | 99%   | 56%   | 100%  | 100%  | 100%  | 100%  | 100%  |

GLG's procurement revenue is driven by both the growth in number of YHT store locations as well as the in-store sales of each YHT store. Gross margin is driven by both GLG's charge of a straight commission on YHT store sales where there are no product costs and by GLG shipping product to YHT stores where GLG marks up the products it sells to YHT for resale through its stores.

## 2007 Capital Expenditures

| In thousands Canadian       | Q4 07   | Q4 06 | % Change | 2007    | 2006 | % Change |
|-----------------------------|---------|-------|----------|---------|------|----------|
| <b>Capital Expenditures</b> | \$5.274 | -     | -        | \$6,478 | \$20 | -        |

GLG's capital expenditures were \$6.5 million for 2007 versus \$0.02 million in 2006. Capex in 2006 was very low as GLG had just acquired the Runde 200 MT facility in December 2006. 2007 Capital expenditures were primarily for the Runde 500 MT upgrade project.

### Runde 500 MT High Grade Stevia Upgrade Project

GLG's 100% owned subsidiary, Runde, commenced the design and construction of a new facility in the third quarter of 2007. This capacity expansion is to further improve the production process for high grade stevia as well as to expand capacity to meet growth in demand. This new facility will increase annual production capacity for high grade stevia from 200 metric tons per annum to a minimum of 500

## GLG Life Tech Corporation Management Discussion & Analysis

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metric tons per annum. Production capacity could achieve as high as 700 metric tons of high grade stevia. This facility is the largest re-crystallization line ever built for the production of high grade stevia in China. The facility has been designed with the latest process technology and the Company expects the following benefits:

1. Expansion of capacity to meet forecasted customer demand.
2. Improved efficiency in producing high grade stevia; Current production time from intermediate powder to final product is expected to improve by 30%.
3. Improved capacity utilization for older lines to focus on intermediate products only. Improvement is expected to be in the 10-20% range.
4. Improved control over end product grade and quality.
5. Improved co-product (by-product) recovery
6. Improved recoveries of reusable production supplies as well as efficient use of power to produce high grade stevia end products.

### **Runde 500 Metric Ton High Grade Stevia Upgrade Capital Project Status**

As of December 31, 2007 the status of the Runde expansion project is as follows:

- 1) Building construction complete.
- 2) Equipment installation was 50% complete
- 3) On Target for completion in April 2008.

# GLG Life Tech Corporation Management Discussion & Analysis

## Liquidity and capital resources

| In thousands Canadian           | 2007     | 2006     |
|---------------------------------|----------|----------|
| Cash                            | \$28,253 | \$942    |
| Current Ratio (1)               | 3.09     | 1.76     |
| Working Capital                 | \$29,842 | \$1,595  |
| Total Assets                    | \$89,014 | \$21,363 |
| Total Liabilities               | \$14,261 | \$2,096  |
| Advances from Customers         | \$6,549  | -        |
| Loans Payable (Current Portion) | \$6,000  | \$880    |
| Total Equity                    | \$74,752 | \$19,266 |

(1) Current Ratio = Current Assets / Current Liabilities

Cash and working capital reflected net proceeds from the private placement that was completed on December 11, 2007. Total Liabilities reflect the \$6 million Convertible Debenture Obligation as well as the Advances from Customer amount of \$6.5 million. An increase in accounts receivable, inventory and accounts payable reflects the increase in the Company's production and shipments of its stevia operations. Total Equity reflects the \$34.5 million private placement in December 2007, the first tranche payment for the AHTD acquisition (\$12.9 million) in December 2007 and the equity value associated with the warrants provided to a major customer with respect to the five year supply contract (\$10.9 million).

## Convertible Debenture Financing

On June 22, 2007, the Company issued convertible debentures ("Debentures") and share purchase warrants ("Warrants") to purchase shares of the Company's common shares for total gross proceeds of \$6,000,000. The Debentures are due on June 30, 2008 and bear interest at a rate of 12% per annum, payable semi-annually in arrears beginning on December 31, 2007. The Debentures are convertible into common shares with the first third of the principal converted at a conversion price of \$2.80 per common share, the second third of the principal converted at \$3.05 per common share and the remaining converted at \$3.30 per common share. The Debentures were issued with warrants to purchase up to 1,200,000 common shares of the Company. The warrants expire on June 22, 2009 and are each exercisable for one common share of the Company at a price of \$3.05 for the first 600,000 common shares and \$3.30 for the second 600,000 common shares.

## GLG Life Tech Corporation Management Discussion & Analysis

The Debentures are convertible, at the option of the holder, at any time prior to maturity. Since redemption can be made either by cash or by common shares at the option of the Company, the Debentures are classified as a compound financial instrument for accounting purposes.

### Advances from customers

In July 2007, the Company signed a five year supply agreement and a prepayment agreement for the 2007-2008 order with one of the Company's customers whereby the customer will finance up to US\$7,000,000 for the purchase of stevia leaves, which shall be further processed into stevia extract to be shipped to the customer. The prepayment will be repaid upon sale of stevia extracts to that customer, which is expected to commence on September 1, 2007 through to August 31, 2008 on a monthly basis. Interest at Libor + 3.25% is charged per annum, payable on a quarterly basis. The balance of this prepayment was \$6,549,100 as at December 31<sup>st</sup>, 2007.

### Private Placement

To finance the Company's plant and operations expansion, GLG raised gross proceeds of \$34.5 million through a private placement in December 2007. The private placement consisted of 11,500,000 common shares at \$3.00 per share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of \$4.50 per common share for a period of 18 months from the closing of the private placement. The Company paid a cash commission equal to six percent of the gross proceeds of this private placement. The broker was also granted a number of compensation options equal to six percent of the total number of units sold pursuant to the offering. Each compensation option entitles the holder thereof to acquire one unit at an exercise price of \$3.00 per unit on the same terms and conditions of the offering, for a period of 18 months from the closing of the offering.

### Contractual obligations

| In thousands Canadian              | 2008     | 2009 | Total    |
|------------------------------------|----------|------|----------|
| Convertible debenture              | \$6,360  | -    | \$6,360  |
| Customer prepayment*               | \$6,832  | -    | \$6,284  |
| Leases                             | 116      | 116  | 232      |
| Equipment & Construction Contracts | 338      | -    | 338      |
| Total                              | \$13,646 | 116  | \$13,762 |

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\* This amount is expected to revolve each year and will renew in June of a fiscal year to finance the next leaf harvest payments to farmers.

The Company has two major contractual obligations due within the next twelve months. The convertible debenture plus interest will be due on June 30<sup>th</sup>, 2008 and the customer prepayment of \$6,549,100 is due by August 31, 2008. The customer prepayment is settled through product shipments which commenced in 2007. The Company expects that it will negotiate a customer prepayment each year with its major customer to finance the leaf purchase required for the next year of its contract delivery.

The outlook section also provides an estimate of GLG capital expenditure program that it is planning to undertake in 2008 as additional information on anticipated commitments for 2008.

### Capital Structure

#### Outstanding Share Data as at December 31, 2007

|  | Shares             |
|--|--------------------|
| <b>Common Shares Issued December 31, 2007</b>              | <b>65,584,060</b>  |
| <b>Reserved For Issuance</b>                               |                    |
| Stock Options  | 5,568,067          |
| Warrants   | 27,574,585         |
| Reserved for Issuance - AHTD acquisition                   | 8,750,000          |
| Reserved for Issuance – Convertible Debenture              | 1,976,082          |
| Reserved for Issuance – Other                              | 250,000            |
| <b>Total Reserved for Issuance</b>                         | <b>44,118,734</b>  |
| <b>Fully Diluted Shares December 31<sup>st</sup>, 2007</b> | <b>109,702,794</b> |

China laws require all wholly owned foreign entities to set aside 10% of retained earnings as a general reserve fund for employee benefit every year until such a fund has reached 50% of the Company's registered capital. The law allows the funds in the reserve to be distributed to shareholders at the wind up of the reserve. The reserve has been included in the retained earnings on the balance sheet. The total reserve of the Company at December 31, 2007 is \$139,474 (2006 - \$9,048).

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## Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements.

## Transactions with Related Parties

During the period under review, the Company entered into the following transactions with related parties:

1. Paid and/or accrued consulting fees for the year of 2007 of \$294,681 (September 30, 2006 - \$134,525) to one officer directly, to one company that one officer is employed by and; to two companies separately controlled by two officers.
2. Paid legal fees, disbursement and provincial sales taxes of \$100,099 (2006 – \$58,200) to a law firm of which the Company's secretary is an associate counsel.
3. Received income of \$964,185 (2006 - \$656,734) from a company (YHT) formally controlled by a former director for the procurement of goods. The director has terminated their role with the Company as of April 14, 2006.
4. The Company has advanced to the same related party referred to in number 3) the amount of \$1,864,182 (US\$1,870,000), as described in Note 15 to the Annual Financial Statements, for the purpose of launching a marketing program in China to substantially increase the Company's exposure in various parts of China. The last advance was made to the former related party in February 2007.
5. Paid facility rental fees of \$70,600 (RMB 500,000) to a company that two officers have ownership interest in.
6. Sold goods to a non-related third party for about \$484,698 (RMB 3,432,705) that involved an agent that is a company of which two of the Directors and Officers are shareholders in.
7. Borrowed \$406,580 (\$US 400,000) in a short term loan to pay for initial capitalisation of one of the subsidiaries that is a company of which two of the Directors and Officers are shareholders in. The amount was fully repaid in January 2008.

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

# GLG Life Tech Corporation Management Discussion & Analysis

## 2008 Outlook

### Operations 2008 Outlook

The Company expects the market for its stevia products to be stronger in 2008 relative to the demand seen in 2007. The majority of its high grade stevia extract will go to its major customer as per the five year contract terms. The Company is also experiencing increasing customer interest in its lower grade stevia products as well.

GLG's key operational objectives for 2008 are:

1. Construct new facilities to increase production capacity and revenues (to be completed by Q4)
2. Recruit and train staff in China for new production facilities (to be completed by Q4)
3. Organize stevia growers In partnership with local governments in China (to be completed by Q1)
4. Implement a new Consumer Products Division and commence operations (to be completed by Q2)
5. The Company has excellent relations at both the provincial and municipal levels in the provinces of Shandong, Jiangsu and Anhui China which will assist it greatly in the realization of these business objectives in 2008.

GLG provides the following outlook for 2008.

|                                 | 2008 Estimate        | 2007 Actual   |
|---------------------------------|----------------------|---------------|
| Revenue (1)                     | \$16 to \$18 million | \$9.1 million |
| Metric Tons (MT) Stevia Shipped | 210 MT to 240 MT     | 113 MT        |
| EBITDA                          | 2.6 to 3.0 million   | \$1.5 million |
| Capital Expenditures (Capex)    | \$75 to \$85 million | \$6.5 million |

### Revenue - 2008 Outlook

GLG's stevia operations are expected to drive the majority of forecasted revenue growth in 2008. This growth will be based on delivery against existing customer orders for 2008 as well as expected new orders for the 2008/2009 delivery period. Revenue is expected to be significantly weighted towards the third and fourth quarter of 2008. This expectation is driven by the following:

## GLG Life Tech Corporation Management Discussion & Analysis

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- a) Limited production and shipments in the first quarter due to plant shut down in February for Chinese New Year celebrations and an agreed rescheduling of product shipments to a major customer from the first to the second quarter of 2008.
- b) Unavailability of the new 500 MT facility upgrade at Runde until the second quarter that once online will more than double GLG's high grade stevia extract output
- c) Larger volume customer orders that will be fulfilled after the stevia harvest in the third quarter
- d) Significantly higher levels of leaf purchase during harvest time as compared to 2007 in order to meet increased customer demand
- e) Additional new facilities in Mingguang and Dongtai anticipated to be online in the fourth quarter that will significantly increase GLG's capacity and output of stevia extract
- f) Launch of consumer products division with operations underway towards the end of the second quarter

### Capital Expenditures - 2008 Outlook

There are four key capital projects for the Company in 2008 which constitute the largest capital program to date. By the end of 2008, the Company expects its capacity for high grade stevia to increase by over 650% which will position it to meet forecasted customer demand. The Company further expects to require capacity upgrades beyond those planned in 2008 to meet additional demand.

The Company has decided the most economical approach to developing its processing facilities in Mingguang and Dongtai is to develop the land and building infrastructure to accommodate its next two year expansion requirements rather than just year one's capacity requirement. This approach will allow the Company to add incremental production lines while limiting the need to construct additional building and facility space, warehouse space or roads in 2009. The building infrastructure will be constructed for two 20,000 MT leaf processing facilities, however the equipment purchased in 2008 will be limited to providing 10,000 MT leaf processing capacity.

Upon completion of its first phase of construction in Mingguang and Dongtai, future capacity upgrades at these locations are expected to be facilitated.

| Production Capacity | Year end 2007 | Year end 2008 |
|---------------------|---------------|---------------|
| Leaf Processing     | 5,000         | 25,000        |
| Intermediate Powder | 500           | 2,500         |
| High Grade Stevia   | 200           | 1,500         |

## GLG Life Tech Corporation Management Discussion & Analysis

### List of Key Capital Projects for 2008

| GLG Subsidiary   | Capital Project   | Location                   | Expected Completion Date              | 2008 Capital Project Estimate ('000s) |
|--|---|----------------------------|---------------------------------------|---------------------------------------|
| <b>Qingdao Runde Biotechnology Co., Ltd. ("Runde")</b>       | 500 M T High Grade Stevia Upgrade.  | Qingdao, Shandong Province | April, 2008                           | \$2,000                               |
| <b>Dongtai Runyang Stevia High Tech Co. Ltd. ("Runyang")</b> | 10,000 MT Leaf Capacity Intermediate Processing Facility                                  | Dongtai, Jiangsu Province  | October, 2008                         | \$25,000                              |
| <b>Dongtai Runyang Stevia High Tech Co. Ltd. ("Runyang")</b> | 1,000 MT High Grade Stevia Capacity Secondary Processing Facility                         | Dongtai, Jiangsu Province  | October, 2008                         | \$18,000                              |
| <b>Chuzhou Runhai Stevia High Tech Co., Ltd. ("Runhai")</b>  | 10,000 MT Leaf Capacity Intermediate Processing Facility                                  | Mingguang, Anhui Province  | November, 2008                        | \$25,000                              |
| <b>Phase 2 Capacity Expansion for 2009</b>                   | This is the program to upgrade both Intermediate and High Grade Stevia capacity for 2009. | Mingguang and Dongtai      | Start Q4 2008 with completion in 2009 | \$10,000                              |
| <b>Total 2008 Capex Program Outlook</b>                      |   |                            |                                       | <b>\$80,000</b>                       |

### GLG Seed base and R&D Outlook

With the completion of the acquisition of Agricultural High Tech Developments Company Limited ("AHTD") in late 2007, GLG will directly benefit from the high quality seedlings produced by AHTD. One of the key benefits acquired were two patent pending seedlings that are commercially viable for growth in key stevia growing regions within China. These seedlings have been bred through AHTD's R&D program and contain significantly higher Rebaudioside A content than the average seedlings available in China today. The advantage to GLG will be through high yield from the leaf providing GLG a lower cost of production for its products than if it were to process average stevia leaf found in China today. AHTD's patents and key personnel will be fully integrated into GLG's Bengbu subsidiary in 2008.

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In 2007, GLG's purchase of stevia leaves is estimated to include less than 5% leaf that was generated from AHTD's higher quality seedlings. With the establishment of its Bengbu subsidiary operations in late 2007 and the acquisition of AHTD staff and technology, GLG estimates for the 2008 stevia growing season that approximately 30% of its harvested leaf will come from Bengbu's (formally AHTD's) high quality seedlings.

## Greenhouse Operations

To ensure farmers in key stevia growing regions plant GLG seedlings, the Company established a greenhouse program in 2007 to cultivate seedlings for the 2008 planting season. As of December 31, 2007, GLG had the use of approximately 65 greenhouses, constructed primarily by the Chinese Government, which were growing seedlings for GLG's 2008 stevia growing season. Each greenhouse is an average size of 1 mu and contains an average number of seedlings ranging from 400,000 to 500,000. As of February 29, 2007, the number of greenhouses had been expanded to over 300. The Government cooperates with GLG through the provision of greenhouses in which GLG can grow seedlings. The support to further expand stevia growing by the Government is strong as the stevia crop is viewed by the Chinese Government as high-tech agriculture that will further the prosperity of its farmers. GLG further expects that as it expands its greenhouse operations in 2009 and beyond, the Bengbu seedlings will move closer to supplying 100% of the leaf purchased by GLG.

## R&D Program for Stevia

The R&D program for stevia will be undertaken through GLG's subsidiary Anhui Bengbu HN Stevia High Tech Development Company, Ltd ("Bengbu"). Bengbu is led by Mr. Wang who has spent over 10 years developing commercially viable stevia seedlings and who became part of the GLG team with the acquisition of AHTD in 2007. Mr. Wang is also responsible for the development of the greenhouse operations through the Bengbu subsidiary.

GLG plans to continually fund an R&D program that will achieve the following objectives:

1. Enhance Rebaudioside A content of its seedlings to improve production yields of Rebaudioside A during final extraction and refining operations and to lower GLG's production cost of high grade stevia products
2. Develop commercially viable stevia seedlings for new stevia growing areas that the Company is developing.
3. Develop farming techniques to assist farmers for the growth of stevia in their regions.

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## Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and in management's opinion, have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

### (a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and all its subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

### (b) Cash and cash equivalent

Cash and cash equivalents, which include term deposits that are purchased three months or less from maturity, are presented net of outstanding items including cheques written but not cleared by the bank as at the balance sheet date.

### (c) Investment

Temporary investment, which is a fixed term deposit held at a chartered bank with a maturity date in excess of three months, is recorded at cost, which approximates fair value.

### (d) Inventory

Inventories are stated at the lower of cost and net realizable value, using the weighted average cost method. Net realizable value represents the anticipated selling prices less all further costs for distribution.

### (e) Foreign currency translation

All of the Company's subsidiaries in China operate as self sustaining foreign operations, and the respective accounts have been translated into Canadian dollars in accordance with the current rate method. Assets and liabilities are translated at the exchange rates prevailing at the balance sheet dates, and revenue and expenses are translated on the basis of average exchange rates during the periods. Any gains or losses arising from the translation of these accounts are deferred and included as a component of shareholders' equity, as cumulative foreign currency translation adjustments.

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### (f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the following annual rates:

|                              |          |                          |
|------------------------------|----------|--------------------------|
| Ion exchange resin equipment | 20 years | straight line method     |
| Buildings                    | 20 years | straight line method     |
| Manufacturing equipment      | 10 years | straight line method     |
| Motor vehicles               | 5 years  | straight line method     |
| Computer equipment           | 30%      | declining balance method |
| Computer software            | 50%      | declining balance method |
| Furniture and fixtures       | 20%      | declining balance method |

### (g) Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. Goodwill is tested for impairment annually or when indicated by events or changes in circumstances, by comparing the fair value of a particular reporting unit to its carrying value. When the carrying value exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying value to measure any impairment loss.

### (h) Intangibles

Intangible assets are amortized over the estimated useful life of each asset unless the life is determined to be indefinite. An intangible asset with an indefinite life is not amortized but will be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

An impairment loss is recognized when the carrying value of the intangible asset exceeds the estimated undiscounted future cash flow expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis.

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### (i) Income taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

### (j) Revenue recognition

Revenue from product sales is recognized when products are shipped to customers, and when the ultimate collection is reasonably assured.

The Company has signed a supplier agreement with YHT whereby YHT is an authorized retailer in China for the products distributed by the Company. According to the agreement, YHT is allowed to distribute the Company's health and pharmaceutical products purchased either from the Company or the Company's approved suppliers, and to operate health education centers under the name HZ Center. The Company is entitled to a fee from YHT for any of its product sold at a prescribed rate, whether the products were supplied directly or indirectly by the Company, as well as an annual fee of \$2,000 for every store operated or authorized by YHT under a franchise or other license as of January 1 of the same year. Notwithstanding the foregoing, the Company has elected to waive the annual fee for another year.

### (k) Earnings per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercising of the options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

### (l) Stock based compensation

Canadian generally accepted accounting principles require the fair value of all share purchase options to be expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

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The Company uses the Black Scholes option valuation model to calculate the fair value of share purchase options at the date of the grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

### (m) Use of estimates and measurement uncertainty

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of plant and equipment and valuation allowances for receivables and inventories, and the determination of the value of warrants, deferred sales incentives, convertible debenture and stock based compensation. Actual results may differ from those estimates.

### (n) Capitalization of interest costs

Interest on Long Term Debt associated with the construction of long term assets is capitalized, where the borrowing costs is attributable to the acquisition, construction or production of a qualifying asset . A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Where funds were borrowed specifically to obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

Where funds were not borrowed specifically to obtaining a qualifying asset, generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation shall be determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

### (o) Convertible debenture

During the third quarter of 2007, GLG changed its accounting policy for the treatment of the convertible debenture identified below in note 18. Under the previous accounting policy, the equity component of the debenture was valued using the Black Scholes valuation model and the residual value of the debenture was allocated to its debt component. In the case of this Convertible Debenture, due to the limited trading volumes of the company's shares, management has determined that a more reliable

## GLG Life Tech Corporation Management Discussion & Analysis

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value can be obtained by determining the value of the debenture's debt component and allocating the residual value to the option component, as described in CICA Handbook section 3861 paragraph 22.

To effect the newly adopted accounting policy, the valuation of the debt component has been established using a discount rate that is the equivalent of the interest rate that would be needed to finance subordinated debt without an attached equity component, which has been determined to be 18% based on the rate to be paid by the company on new Subordinated Debt as of June 22, 2007. Using this valuation methodology, the value of the liability portion of the debenture has been established at \$5,694,915 and the remaining \$305,085 value of the combined debenture allocated to its equity component, which consists of warrants and the debenture's conversion option. During the term of the debentures, the fair value will be accreted to their face value, with the accretion of the liability portion reported in net income as an adjustment of interest expense, and the accretion of the equity portion as a charge to retained earnings.

## Financial Instruments and Other Instruments

### Fair Values

Fair value of estimates of financial instruments is made at a specific point in time based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature involving uncertainties and matters of significant judgment they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair value.

The carrying value of cash and cash equivalents, investment, subscriptions receivable, accounts receivable, accounts payable and convertible note payable approximates the fair value because of the short-term nature of these instruments. The fair value of loans receivable approximates the fair value because they bear a fair interest rate.

### Credit Risks

The Company has a high concentration of credit risk as the accounts receivable were owed by fewer than four customers. The Company does not believe that it needs to require collateral to support these financial instruments.

### Currency Risk

The Company is exposed to currency risk as its subsidiary's functional currency is denominated in a foreign currency. Unfavourable changes in the applicable exchange rate may result in a decrease or increase in the cumulative translation adjustment. The Company does not use derivative instruments to reduce its exposure to foreign currency risks.

It is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

## Disclosure Controls and Internal Controls over Financial Reporting

The Company's disclosure controls and procedures were designed to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to management in a timely manner so that information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation. The Company's management, under the direction and supervision of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2007, and has concluded that such disclosure controls and procedures are effective. The Company has received additional recommendations from its auditor which it is considering to implement to further improve such controls and procedures.

The Company's management, under the direction and supervision of the Chief Executive Officer and Chief Financial Officer, are also responsible for establishing and maintaining internal control over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There have been no changes in the Company's internal control over financial reporting for the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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

## Risks Related to our Business

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

- Intellectual Property Infringement
- Product Liability Costs

# GLG Life Tech Corporation Management Discussion & Analysis

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- Manufacturing Risk
- Customer Concentration Risk
- Competition
- Government Regulations
- Consumer Perception of Products
- Changing Consumer Preferences
- Market Acceptance
- Dependence on Key Personnel
- Volatility of Share Prices

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

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

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

## **Additional Information**

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