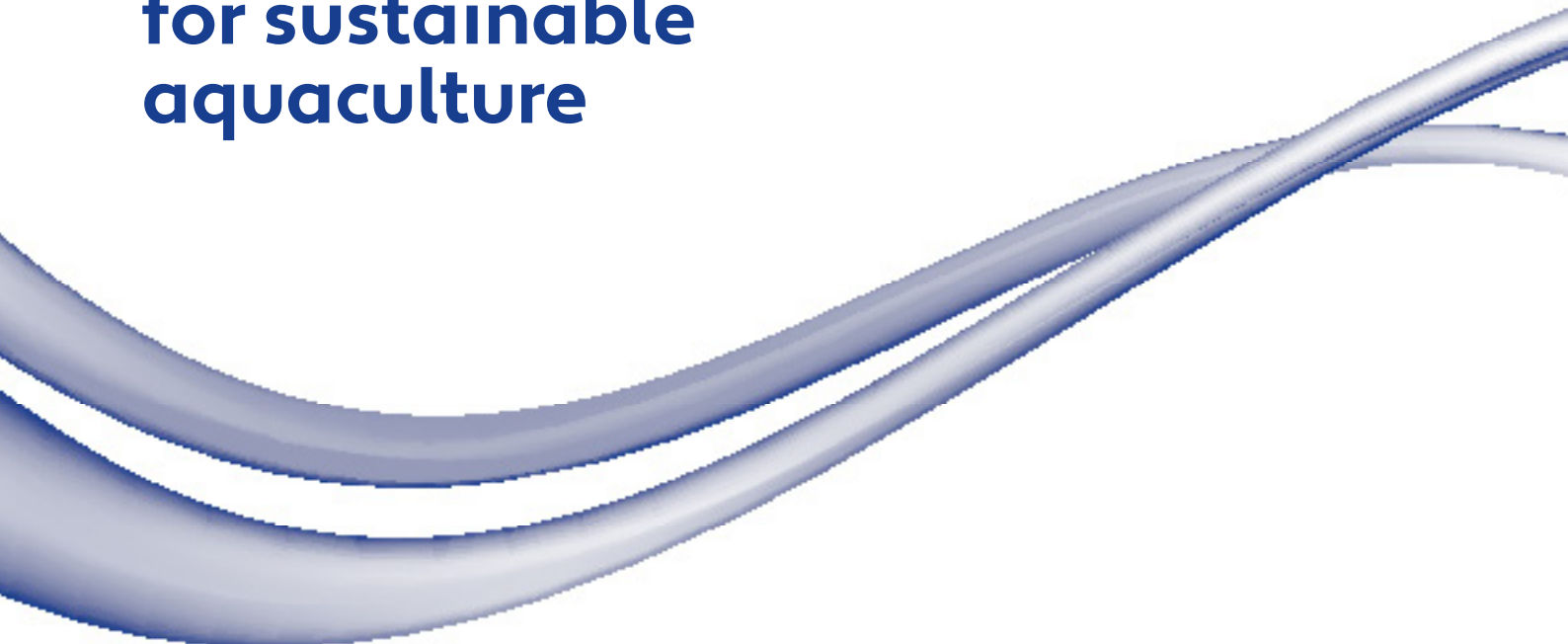




Annual report and accounts 2010

Biotechnical solutions for sustainable aquaculture



Size comparison of an AquAdvantage[®] Salmon (background) vs. a non-transgenic Atlantic salmon sibling (foreground) of the same age.

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AquaBounty is a biotechnology company dedicated to the improvement of productivity in aquaculture

Bringing together biological sciences and molecular technology, AquaBounty intends to facilitate the development of an aquaculture industry capable of large-scale, efficient and environmentally sustainable production of high quality seafood. Increased growth rates, enhanced resistance to disease, better food-conversion rates, manageable breeding cycles, and more efficient use of aquatic production systems are all important components of a sustainable aquaculture industry of the future.



Visit our website
www.aquabounty.com

AquAdvantage®

AquAdvantage® Salmon (AAS) include a gene from the Chinook salmon, which provides the fish with the potential to grow to market size in half the time of conventional salmon. In all other respects, AquAdvantage® Salmon are identical to other Atlantic salmon.

Although salmon grown from AquAdvantage® eggs are the same biologically and nutritionally as any other Atlantic salmon, their accelerated growth comes from the addition of a growth hormone gene from the Chinook salmon.

The Chinook growth hormone is the same as the Atlantic salmon growth hormone; it is simply regulated differently. Their ability to grow faster does not change the biological make-up of the fish. The development of AAS is based on more than two decades of scientific research, making it the most studied line of Atlantic salmon.

Review of the year

Highlights

- **Received section complete letters from the US Food and Drug Administration** on all seven parts of the New Animal Drug Application for AquAdvantage® Salmon
- **FDA convened its Veterinary Medicine Advisory Committee*** to review its findings of AquAdvantage® Salmon and **concluded it is indistinguishable from conventional Atlantic salmon**
- **Successful completion of AquAdvantage® Salmon commercial market test**
- **Net loss of US\$5.3 million** (2009: US\$4.8 million net loss)
- **New equity subscription of US\$4.9 million net** raised from Linnaeus Capital Partners, B.V.
- **Cash and marketable securities** at 31 December 2010 amounted to **US\$6.2 million** (2009: US\$5.7 million)

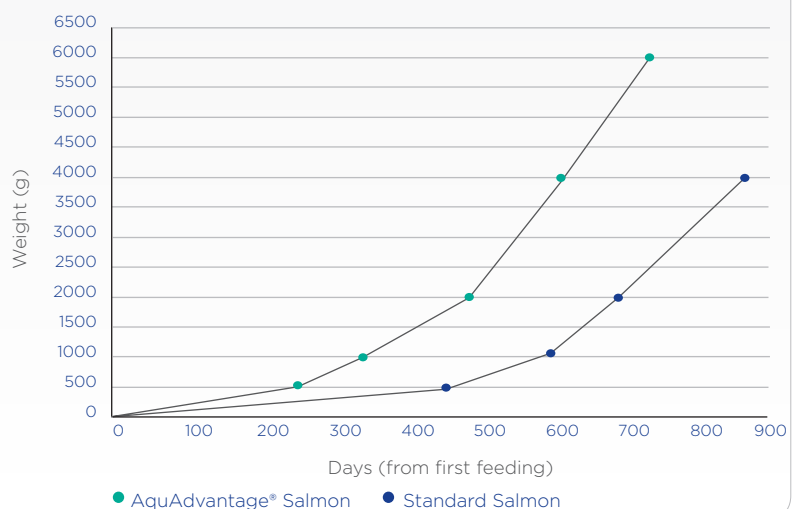


* The Veterinary Medicine Advisory Committee (VMAC) advises the Commissioner of the FDA in discharging their responsibilities. The VMAC reviews and evaluates available data concerning the safety and effectiveness of marketed and investigational new animal drugs.

- “There are no adverse effects on size, body weight, or related parameters in AquAdvantage® Salmon relative to comparator fish other than the effects expected from the introduction of the AquAdvantage® construct.”
- “Statistical analysis of the data showed no differences among study groups with one exception. The body weight of diploid and triploid AquAdvantage® Salmon was much greater than that of corresponding satellite controls. This was expected given that the construct was intended to result in accelerated early life-stage growth.”

(Source: VMAC, September 2010)

Growth curves (Growout):



Review of the year

AquaBounty at a glance

Aquaculture continues to grow more rapidly than other animal food-producing sectors

Growth drivers

82% of world fish stocks are overexploited, depleted or endangered, while demand for fish protein is exploding.

With the world population expected to reach 9 billion by 2050, demand for critical sources of protein continues to outstrip supply.

Aquaculture provides a means of partially meeting this demand, but we cannot expect to feed a burgeoning global population without employing every tool at our disposal, including enhancing aquaculture productivity through genetic engineering.

AquAdvantage[®] Salmon is one of at least 18 different accelerated growth varieties of fish under development in countries around the world that can help feed an overpopulated planet. It is the first to undergo review by a regulatory body so that it can begin to provide people with a safe and healthy source of protein, while reducing the pressure on wild fisheries.

Environmentally sustainable alternative

AquAdvantage[®] Salmon will be grown as sterile, all-female populations in land-based facilities with redundant biological and physical containment.

As a result, they cannot escape or reproduce in the wild and pose no threat whatsoever to wild salmon populations.

Salmon raised in land-based facilities reduce the impact on coastal areas, eliminate the threat of disease transfer from farms to wild fish and grow more fish with less feed. Control of inputs and waste products allow operators to control both more efficiently.

Facilities sited near major consumer markets reduce the environmental impact associated with air and ocean freight. Additionally, studies performed at the Department of Fisheries and Oceans, Canada's Center for Aquaculture and Environmental Research, concluded that cultured and transgenic salmon would have little success in a natural environment when competing against their wild counterparts for mates.

Safe as food from conventional salmon

A healthy, environmentally sustainable alternative to conventional salmon farming – the future of salmon aquaculture.

AAS would be the first food from a transgenic animal to be approved by the US Food and Drug Administration.

Commercially popular strains of Atlantic salmon that are commonly used in salmon farming formed the genetic platform for AquAdvantage[®] Salmon. Consequently, they have a disease-resistance profile that is similar to conventional lines of Atlantic salmon commonly used in salmon farms and are less exposed to disease because they are raised in a land-based system.

Due to better biosecurity measures, AquAdvantage[®] Salmon grown in land-based systems will have even less disease incidence. Therefore, there would be a reduced need for antibiotics. There is no evidence that these fish might accumulate toxins any differently than conventionally farmed salmon.



Visit our website
www.aquabounty.com

115 million tons
of edible seafood consumed last year

46%
of total food fish supply is from aquaculture

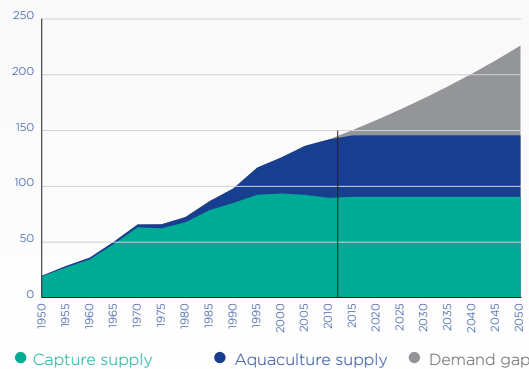
\$98 billion
aquaculture industry in 2008

6.6%
average annual growth



- “With the possible exception of the growth hormone gene included by design, we have not identified any sequences that are likely to contain potential hazards to the target animal, humans, or animals consuming food from that animal, or the environment.”
 - “The general husbandry conditions for AquaAdvantage® Salmon are consistent with commercial freshwater aquaculture conditions; they present no identifiable hazards or safety concerns.”
- (Source: VMAC, September 2010)

Projected gap in world seafood supplies:
Seafood supply and demand



(Source: Food and Agriculture Organization of the United Nations - data: 1950 - 2008)

- “No health abnormalities were observed and the fish were regarded as in good health and of normal behavior.”
 - “We have found no biologically relevant difference between food from AquaBounty Technologies (ABT) salmon and conventional Atlantic salmon based on the criteria evaluated.”
 - “The expression of Chinook salmon growth hormone in ABT salmon does not present a new risk of allergic reaction to salmon allergic individuals and is unlikely to cause allergic cross-reactions.”
- (Source: VMAC, September 2010)

“We conclude that food from the triploid ABT Salmon that is the subject of this application is as safe as food from conventional salmon, and that there is a reasonable certainty of no harm from consumption of food from triploid ABT salmon.”

(Source: VMAC, September 2010)

Review of the year

Chairman's statement

“The Board of AquaBounty remains assured that the FDA is advancing the approval process and that the prospects for commercial development thereafter are strong.”

R. J. Clothier
Chairman



The focus of AquaBounty's activity in 2010 has been the final stages in seeking approval for its AquAdvantage® Salmon (AAS) from the US Food and Drug Administration (FDA). Whilst this process has taken longer than initially expected due to the unique nature of the application, significant progress has been made this year. The Company remains in dialogue with the FDA and believes that it is advancing towards approval of the New Animal Drug Application. Once received, AAS will be the world's first genetically modified animal approved for human consumption.

At the same time, AquaBounty continued its research and development programs, including work on the next generation of AAS, and pursued parallel regulatory approvals in other countries. This resulted in operating expenses for the year that were 8% higher at US\$5.3 million (2009: US\$4.9 million). However, cash used in operations for the year remained at US\$4.6 million, the same as for the previous year (2009: US\$4.6 million).

In October 2010, AquaBounty completed an equity subscription with its largest shareholder, Linnaeus Capital Partners, B.V., with net proceeds to the Company of US\$4.9 million. With these funds, AquaBounty ended the year with cash and equivalents of US\$6.2 million, which is sufficient to take the Company into Q2 2012 at the current rate of spending.

FDA approval process

Despite the extended timescale, AquaBounty has made progress on its New Animal Drug Application (NADA) for the approval of AAS from the FDA. The Company received section complete letters from the FDA on all seven parts of its NADA, at which point the FDA scheduled a public meeting of its Veterinary Medicine Advisory Committee (VMAC) on 19 and 20 September 2011 to review its findings. The FDA concluded that AAS is indistinguishable from other

Atlantic salmon, is safe to eat and does not pose a threat to the environment under its conditions of use. The Company is now awaiting the formal approval from the FDA's Center for Veterinary Medicine. In conjunction with the VMAC meeting, on 21 September 2010 the FDA held a public hearing on the labeling of food, including AAS, which was followed by a short period for public comment. The FDA will not announce a decision on labeling until after formal NADA approval. However, the Company believes that, under current law and FDA policy, AAS would not require special labeling because, despite its method of production, it is indistinguishable from other Atlantic salmon.

The US National Environmental Policy Act requires all federal agencies to consider possible environmental impacts of any action which they authorize. The next stage in the approval process is expected to be the publication by the FDA of an Environmental Assessment for AAS, followed by a period for public comment. Any approval by the FDA of AquaBounty's AAS application would follow this assessment. The Company has not been informed of the likely approval date, but remains confident that the process is advancing towards a successful conclusion.

Commercial market testing

In parallel with these regulatory activities, the Company progressed its market test, which was conducted at an inland commercial-scale unit and concluded successfully in December. AAS fish in the test unit achieved an average weight of almost 3kg, which was more than double the average size achieved by the control animals in the same time under identical conditions. Similarly, the specific growth rate (grams/day) for AAS was more than twice that of the non-transgenic controls. This trial also successfully tested a locally produced feed (with a lower fish oil/fish meal content), which was less than half the cost of comparable commercial salmon feeds.

Key points

- AquaBounty has made progress in its NADA for AquAdvantage® Salmon
- Completed a successful commercial-scale test in December
- Expecting regulatory approval and preparing for commercialization

In anticipation of approval, AquaBounty has developed relationships with authorities and producers in several countries that have appropriate production resources and are interested in testing the AAS product. The Company has received a number of enquiries from developers, within the US and elsewhere, that are enthusiastic about the economic prospects of growing AAS. Plans to expand capacity for the production of eggs for sale are in place and will be implemented as soon as approval is granted.

Outlook

Demand for seafood has put many of the world's natural fishing grounds under severe pressure and overfishing is a significant issue. As a result, world aquaculture has grown dramatically from less than 1 million tons in the early 1950s to over 53 million tons in 2008. However, coastal fish farming is also proving to have limitations when overstocking is practiced, such as adverse environmental impacts and disease transmission. By providing a ready source of faster-growing fish, which can be reared economically in land-based contained systems, salmon grown from AquAdvantage® eggs can help satisfy the global need for increased food production and reduce pressure on wild fish stocks. In addition, faster growth and inland rearing results in reduced feed and transport costs, less time to market, more efficient use of capital and less impact on the environment compared with historical cultivation methods.

The Board of AquaBounty remains assured that the FDA is advancing the approval process and that the prospects for commercial development thereafter are strong.

R. J. Clothier
Chairman

Regulatory timeline**1989**

The AquAdvantage® transgene was micro-injected into eggs of wild Atlantic salmon.

1992

A transgenic female was selected as the founder of the AquAdvantage® line.

1995

AquaBounty Technologies established an Investigational New Animal Drug file with the Center for Veterinary Medicine of the US FDA to pursue the development of AquAdvantage® Salmon.

2001

First regulatory study submitted by AquaBounty Technologies to US FDA for a New Animal Drug Application.

2008

US FDA approves AquaBounty Canada as a manufacturing site for production of AquAdvantage® Salmon eggs.

2009

The last of more than 20 formal regulatory submissions is filed. US FDA approves AquaBounty Panama as an authorized site for the commercial production of AquAdvantage® Salmon.

2010

US FDA convenes a meeting of its Veterinary Medicine Advisory Committee to review its findings on AquAdvantage® Salmon: that it is indistinguishable from Atlantic salmon; that it is safe to eat; and that it poses no threat to the environment under its conditions of use.

2011

Anticipated commercial approval of AquAdvantage® Salmon.

AquAdvantage® Salmon under FDA review

The most studied fish in history

Corporate governance

Board of directors

**1. Richard J. Clothier****Non-executive Chairman of the Board**

Richard J. Clothier has served as Chairman of the Board of AquaBounty since April 2006. He has also served as Chairman of Robinson Plc since 2004 and of Spearhead International Ltd since 2005. He recently retired as Group Chief Executive of PGI Group Plc, an international agricultural products producer, following 20 years with Dalgety Plc where he was CEO of the genetics company PIC until 1992 and then Group CEO until 1997. He holds a BSc in Agriculture from Natal University and an AMP from Harvard Business School.

Chairman, Corporate Governance and Nominations Committee.

2. Ronald L. Stotish, PhD**Executive Director, President and Chief Executive Officer**

Ronald L. Stotish was appointed Executive Director, President and Chief Executive Officer of AquaBounty Technologies in May 2008. Dr Stotish joined AquaBounty in 2006 as Vice-President for Regulatory Affairs and, most recently, was Senior Vice-President for R&D and Regulatory Affairs. Prior to joining AquaBounty, Dr Stotish was Executive Vice-President for R&D at MetaMorphix, Inc. He has served as Vice-President for Pharmaceutical R&D at Fort Dodge Animal Health and held a variety of positions at American Cyanamid. He began his career in research at Merck. Dr Stotish has degrees in biochemistry and over 39 years' experience in the discovery, development and commercialization of new animal health products.

3. Elliot Z. Entis**Non-executive Director and Co-founder**

Elliot Z. Entis is one of the founders of AquaBounty and led the Company as its CEO until 2008. He has 20 years' experience in the wholesale seafood industry in Boston and spent ten years heading a research firm in Washington, D.C. He has served as a member of the national Board of BIO, the association of biotechnology companies, and was Chairman of BIO's Animal Agriculture Board. Mr Entis has written and spoken extensively on commercial and regulatory issues surrounding the introduction of foods derived with the help of the new tools of biotechnology. He is a 1968 graduate of Harvard College and received his MA degree in political science from University of California Berkeley.

4. Anita Hamilton**Non-executive Director**

Anita Hamilton joined the Board of AquaBounty in November 2010. Ms Hamilton is currently a partner and Managing Director of the private equity fund, Linnaeus Capital Partners, B.V., having joined in 2009. Prior to Linnaeus, she was employed by Carlyle Limited and was a director of Cairn BD Limited from February 2007 to July 2009. Ms Hamilton was head of Business Development at Hutchison Westports Limited from 1991 to 2005 and was Group Management Accountant at Furness Withy Terminals Limited from 1990 to 1991.

Member, Compensation Committee.



5. Richard L. Huber

Non-executive Director

Richard L. Huber joined the Board of AquaBounty after the Company's public offering in 2006. Mr Huber is the former Chairman, President and CEO of Aetna, a major US health insurer, and is currently an independent investor in a number of companies operating in a wide range of businesses, mainly in South America. Following a 40 year career in the financial services industry, Mr Huber now serves as a director of Gafisa, the largest integrated residential housing developer in Brazil, and Antarctic Shipping SA in Chile, as well as several other companies in the US and elsewhere in the world. He holds an AB in Chemistry from Harvard.

Member, Audit Committee.

6. William M. Marcus

Non-executive Director

William M. Marcus has been a Director of AquaBounty since the Company's inception in December 1991. Mr Marcus is the Executive VP, Treasurer and a director of American Bilrite (AMEX). He was formerly a director of the Congoleum Corporation. For many years, he was the Treasurer of Reebok (NYSE) and was head of its Audit Committee.

Chairman, Audit Committee.

7. Eric I. Steiner, MD, MBA

Non-executive Director

Eric I. Steiner has been a Director of AquaBounty since July 2003. Dr Steiner is the former President and Chief Operating Officer of the Fairchild Corporation. He had been President from 1998 until December 2008. He also held the position of President of The Fairchild Fasteners Division of The Fairchild Corporation from 1995 through 2002, when the Fasteners Division was acquired by The Alcoa Corporation. He is currently an independent investor in a number of companies operating in a wide range of businesses. Dr Steiner received an MBA in 1990 from INSEAD Graduate School of Business in Fontainebleau, France. Prior to attending INSEAD, he was a resident at the Hôpitaux de Paris and earlier was awarded an MD from the Faculté de Médecine de Paris.

Member, Compensation Committee.

8. David R. Stevens, DVM, PhD

Non-executive Director

David R. Stevens has been a Director of AquaBounty since June 2002. Dr Stevens has worked in the pharmaceutical and biotechnology industries since 1978. He is currently Chairman of Cedus, Inc., a development stage biopharmaceutical company. He is also a board member of Poniard Pharmaceuticals, Inc. and Micro-Imaging Solutions, LLC, both life science development stage companies. He was an advisor to Bay City Capital from 1999 to 2006. Dr Stevens was previously President and CEO of Deprenyl Animal Health, Inc., a veterinary pharmaceutical company, from 1990 to 1998, and Vice-President, R&D, of Agrion Corp., a biotechnology company, from 1985 to 1988. He began his career in pharmaceutical R&D at the former Upjohn Company, where he contributed to the preclinical evaluation of Xanax and Halcion. Dr Stevens received BS and DVM degrees from Washington State University and a PhD in Comparative Pathology from the University of California, Davis. He is a Diplomate of the American College of Veterinary Pathologists.

Chairman, Compensation Committee.

Corporate governance

Management and advisors

Ronald L. Stotish, PhD

Executive Director, President and Chief Executive Officer
 Ronald L. Stotish was appointed Executive Director, President and Chief Executive Officer of AquaBounty Technologies in May 2008. Dr Stotish joined AquaBounty in 2006 as Vice-President for Regulatory Affairs and, most recently, was Senior Vice-President for R&D and Regulatory Affairs. Prior to joining AquaBounty, Dr Stotish was Executive Vice-President for R&D at MetaMorphix, Inc. He has served as Vice-President for Pharmaceutical R&D at Fort Dodge Animal Health and held a variety of positions at American Cyanamid. He began his career in research at Merck. Dr Stotish has degrees in biochemistry and over 39 years' experience in the discovery, development and commercialization of new animal health products.

Henry Clifford

Vice-President of Marketing and Sales

Henry Clifford was appointed Vice-President of Marketing and Sales in June 2005 and is responsible for the commercial deployment of the Company's product lines. Mr Clifford is an internationally recognized authority on shrimp farming and genetic improvement programs with a career spanning more than 30 years in the industry. He developed and provided technical direction for some of the largest shrimp aquaculture ventures in the Americas and has provided technical services in aquaculture to more than 250 clients in 20 countries.

Nominated advisor

Nomura Code Securities Limited
 1 Carey Lane
 London EC2V 8AE
 United Kingdom

Independent auditors

Ernst & Young, LLP
 139 Water Street
 7th Floor
 St. John's, NL A1C 1B2
 Canada

Corporate financial contact

David A. Frank
 Chief Financial Officer
 dfrank@aquabounty.com

David A. Frank

Chief Financial Officer and Secretary

David Frank was appointed CFO in October 2007. Previously he served as President and General Manager of TekCel LLC, a subsidiary of Magellan Biosciences, after serving as Magellan's CFO since the company's founding in 2004 and as TekCel's CFO since 2003. Mr Frank has over 27 years of financial management experience, including as CFO of SmartEnergy during its period of rapid growth from less than \$1 million in revenue in 2000 to more than \$45 million in 2002. He served as the corporate controller for Moldflow when the company completed its successful public offering and his earlier experience includes financial roles at PerSeptive Biosystems, Lotus Development Corporation, Apollo Computer and Honeywell. He has a BS in finance and accounting from Boston College and an MBA from Babson College.

John Buchanan, PhD

Director of Research and Development

Dr John Buchanan is the Director of Research and Development for AquaBounty. He has held research positions at Louisiana State University (LSU), the University of California at San Diego School of Medicine and was most recently the Director of Aquaculture Therapeutics at Kent SeaTech Corporation, a leader in the application of science to farmed fish. After his BS degree in Zoology from Texas A&M University, he worked on methods for transgenic manipulation of eastern oysters for his doctoral research in Oceanography and Coastal Sciences at LSU. Dr Buchanan's finfish expertise includes work with zebrafish, white and striped bass, channel catfish, red and black drum and speckled trout, and includes research on transgenic manipulation, artificial spawning, milt cryopreservation, ploidy manipulation and production of all female populations. Dr Buchanan has done extensive research into the genetic basis for virulence in aquatic and human pathogens and has worked in vaccine development and the development of novel therapeutics for aquaculture. He has been with AquaBounty since April 2007.

Transfer agent and registrar

Capita Registrars
 The Registry
 34 Beckenham Road
 Beckenham
 Kent BR3 4TU
 United Kingdom

Legal counsel

Jones Day
 21 Tudor Street
 London EC4Y 0DJ
 United Kingdom

Corporate governance

Corporate governance

The Board of Directors is accountable to shareholders for the proper corporate governance of the Company. The principles of corporate governance and a code of best practice are set forth in the Combined Code on Corporate Governance (the "Combined Code"). Under the rules of AIM of the London Stock Exchange, where the Company's shares are listed, the Company is not required to comply with all provisions of the Combined Code. However, the Company intends, where practicable, to comply with the main provisions of the Combined Code. The responsibilities of the Board of Directors and Committees of the Board are set forth in greater detail below.

The Board

The Chairman of the Board of the Company is Mr Richard Clothier. Dr Ronald Stotish is the Chief Executive Officer and is responsible for running the organization on a day-to-day basis. In total, the Board consists of one Executive Director and seven Non-executive Directors. Mr David Frank acts as Company Secretary.

The overall responsibility of the Board of Directors is to ensure that the affairs of the Company are managed in the best long-term interests of shareholders, having regard to the interests of the employees and the community. In fulfilling their responsibilities, Directors are required to keep themselves informed about the Company's activities and the business, political, social and market environments in which the Company operates.

Terms of reference

The Board of Directors has adopted terms of reference to define its objectives and those of each sub-committee. Key areas of responsibility include:

- to determine and review the Company's primary objectives;
- to review and agree upon Company strategy and to revise and develop the strategy as the market and competitive environment changes;
- to ensure that the Company is well managed at all levels and to foster management development and succession;
- to monitor and approve the allocation of financial resources between Company units, functions and activities that enhance short-term profitability and long-term development activities;
- to set standards for the Company in the areas of business ethics, employee relations, community involvement and environmental considerations;
- to maintain effective communication with shareholders and ensure that the Board has an understanding of the views of major shareholders;
- to fulfill AquaBounty Technologies' legal responsibilities as a Delaware corporation and as a UK Listed Company and to comply with the relevant codes of practice; and
- to review and evaluate the performance of the Board and its members against its terms of reference.

Audit Committee

The Audit Committee is chaired by Mr William Marcus. The other member of the committee is Mr Richard Huber. The Chief Financial Officer, the Corporate Controller and the external auditors may also attend a portion or all of the meetings of the Audit Committee as required. The Audit Committee meets at least twice each year. The committee has the responsibility to consider and recommend to the Board the appointment of the Company's external auditors and to review the interim statements and the annual accounts and any other formal statement relating to financial performance, before submission to the Board.

Compensation Committee

The Compensation Committee is chaired by Dr David Stevens. Dr Eric Steiner and Ms Anita Hamilton are the other members of the committee. The primary responsibility of the committee is to determine the compensation of Directors and members of the executive management are required by the Board to consider. The committee also reports to shareholders on behalf of the Board where required by the prevailing listing rules and codes of practice.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is chaired by Mr Richard Clothier. Other Members of the Board participate as needed. The primary responsibility of the committee is to advise the Board as appropriate concerning its composition and that of its committees and to recommend to the Board when new members should be added.

Internal controls

The Board of Directors is ultimately responsible for the Company's system of internal controls and for reviewing and monitoring its effectiveness. The Company maintains a comprehensive process of financial reporting. The annual budget is reviewed and approved by the Board of Directors before adoption. The Board receives a monthly report of the Company's operating performance compared against both the budget and the prior year's results with explanations of significant variances.

The implementation, maintenance, review and improvement of the Company's internal controls are the responsibility of the Chief Financial Officer. The external auditors review the internal financial controls as a basis for determining the nature and extent of their audit testing procedures.

Corporate governance

Directors' compensation report

The Directors present their report and the audited financial statements for the year ended 31 December 2010.

Principal activities

The principal activity of AquaBounty Technologies, Inc. is to research, develop and commercialize products that improve aquaculture productivity. A more detailed review of the Company's activities and future outlook is set out in the Chairman's Statement.

Directors

The Directors who held office during the year were:

R. Clothier	Non-executive Chairman
Dr R. Stotish	Chief Executive Officer
E. Entis	Non-executive Director
A. Hamilton	Non-executive Director
R. Huber	Non-executive Director
W. Marcus	Non-executive Director
Dr E. Steiner	Non-executive Director
Dr D. Stevens	Non-executive Director

Directors' interests

The Directors at 31 December 2010 and their beneficial interests in the share capital of the Company were as follows:

	At 31 December 2010	At 31 December 2009
Ordinary shares		
R. Clothier	302,906	252,906
Dr R. Stotish	—	—
E. Entis	1,090,706	1,090,706
A. Hamilton	—	—
R. Huber	639,321	639,321
W. Marcus	2,535,802	2,535,802
Dr E. Steiner ¹	—	2,934,750
Dr D. Stevens	—	—

1. Amount for 2009 includes shares held by Fairchild Holding Corporation and Swimming Upstream, LLC, both of which are subsidiaries of the Fairchild Corporation, of which Dr Eric Steiner was a former President. He is no longer affiliated with Fairchild Corporation.

Substantial shareholdings

On 31 December 2010 the following shareholders held 3% or more of the issued share capital of the Company:

	Ordinary shares	% of issued
Linnaeus Capital Partners	32,774,406	48.1
Alejandro Weinstein ¹	3,536,669	5.2
Fairchild Corporation ²	2,934,750	4.3
Lou Barnett ³	2,601,533	3.8
W. Marcus ⁴	2,535,802	3.7

- Percentage includes shares held by Western Pharmaceuticals and Minijen Limited. Dr Weinstein is a controlling shareholder of both companies.
- Percentage includes shares held by Fairchild Holding Corporation and Swimming Upstream, LLC, both of which are subsidiaries of Fairchild Corporation.
- Percentage includes shares held by various family partnerships and trusts including the Barnett Family Partnerships I, II and IV, Barnett Limited Partnership and BGC Initial Partnership. Mr L. Barnett retired as a Director of AquaBounty in July 2007.
- Percentage includes shares held by various family partnerships and other direct relatives.

Going concern

The Directors have reviewed the Company's financial position and have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Auditors

Ernst & Young LLP indicated their willingness to continue in office as auditors for the Company. The Directors have approved their appointment for 2011.

Compensation policy

The committee's policy is to set compensation packages that are competitive in the market, thereby enabling the Company to attract, retain and motivate executives of appropriate caliber and experience to effectively manage the business and thereby further the success of the Company. Compensation packages are designed to reward executives for performance through annual bonus payments and awards of stock options. Together, these elements constitute a potentially significant proportion of total targeted compensation.

Directors' compensation

The following table details Directors' earned compensation for the year ended 31 December 2010:

	Salary and bonus ³	Benefits	Board fees	Total compensation
Executive Directors				
Dr R. Stotish	\$ 295,000	\$ 20,351	\$ —	\$ 315,351
Non-executive Directors				
R. Clothier ¹	—	—	62,931	62,931
E. Entis	—	—	16,500	16,500
A. Hamilton ²	—	—	2,000	2,000
R. Huber	—	—	19,500	19,500
W. Marcus	—	—	21,500	21,500
Dr E. Steiner	—	—	20,000	20,000
Dr D. Stevens	—	—	22,500	22,500
	\$ 295,000	\$ 20,351	\$ 164,931	\$ 480,282

1. R. Clothier's compensation includes both Board fees and an annual grant of ordinary shares. Included in his 2010 compensation is a share grant of \$16,045.

2. A. Hamilton joined the Board in November 2010.

3. No bonus payments were made during 2010.

Directors' share options

At 31 December 2010 Directors had options to purchase ordinary shares under the Company's Equity Incentive Plan as follows:

	Options held at 31 December 2010	Weighted average exercise price	% vested at 31 December 2010
Dr R. Stotish	1,870,000	\$ 0.11	33
E. Entis	2,435,273	0.17	99
A. Hamilton	—	—	—
R. Huber	120,000	0.78	80
W. Marcus	245,000	0.49	90
Dr E. Steiner	120,000	0.78	80
Dr D. Stevens	245,000	0.49	90
	5,035,273	\$ 0.21	73

Financial statements

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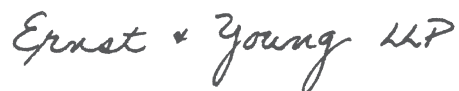
Report of the independent auditors

To the Board of Directors and stockholders of AquaBounty Technologies, Inc.

We have audited the accompanying consolidated balance sheets of AquaBounty Technologies, Inc. (the "Company") as of 31 December 2010 and 2009 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AquaBounty Technologies, Inc. at 31 December 2010 and 2009 and the consolidated results of its operations and its cash flows for the years then ended in conformity with US Generally Accepted Accounting Principles.



St. John's, Canada
Chartered Accountants
27 April 2011

Financial statements

Consolidated balance sheets

As at 31 December	Note	2010	2009
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 2,577,189	\$ 1,197,260
Marketable securities	6	3,615,008	4,496,700
Accounts receivable	4	105,350	180,778
Loan receivable	5	—	185,484
Prepaid expenses and other assets	9	236,232	199,660
Total current assets		6,533,779	6,259,882
Property and equipment	7	1,381,552	1,419,487
Patents	8	86,404	103,622
Licenses	8	3,750	5,625
Other assets	9	336,785	393,481
Total assets		\$ 8,342,270	\$ 8,182,097
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	10	\$ 654,299	\$ 490,834
Current portion of long-term debt	11	65,731	60,272
Total current liabilities		720,030	551,106
Deferred rent		13,683	22,750
Long-term debt	11	3,647,365	3,206,541
Commitments and contingencies	14		
Stockholders' equity:	12		
Common stock, \$0.001 par value, 100,000,000 shares authorized; 68,167,109 (2009: 50,370,443) shares outstanding		68,167	50,370
Additional paid-in capital		69,447,376	64,453,204
Accumulated other comprehensive loss		(723,284)	(591,517)
Accumulated deficit		(64,831,067)	(59,510,357)
Total stockholders' equity		3,961,192	4,401,700
Total liabilities and stockholders' equity		\$ 8,342,270	\$ 8,182,097

See accompanying notes.

Financial statements

Consolidated statements of operations

Years ended 31 December	2010	2009
COSTS AND EXPENSES		
Sales and marketing	\$ 758,775	\$ 830,286
Research and development	1,950,380	1,680,330
General and administrative	2,609,620	2,413,509
	5,318,775	4,924,125
OPERATING LOSS	(5,318,775)	(4,924,125)
Interest (expense) income	(1,935)	88,094
NET LOSS	\$ (5,320,710)	\$ (4,836,031)
Basic and diluted net loss per share	\$ (0.10)	\$ (0.10)
Weighted average number of common shares:		
– basic and diluted	54,857,110	50,293,520

See accompanying notes.

Financial statements

Consolidated statements of changes in stockholders' equity

	Common stock issued and outstanding	Par value	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total
Balance at 31 December 2008	50,216,597	\$50,217	\$64,240,439	\$(292,799)	\$(54,674,326)	\$9,323,531
Net loss					(4,836,031)	(4,836,031)
Foreign currency translation				(238,341)		(238,341)
Unrealized losses on marketable securities				(60,377)		(60,377)
Total comprehensive loss						(5,134,749)
Conversion of outstanding receivable to equity			5,373			5,373
Issuance of common stock for compensation	153,846	153	16,415			16,568
Issuance of options			190,977			190,977
Balance at 31 December 2009	50,370,443	50,370	64,453,204	(591,517)	(59,510,357)	4,401,700
Net loss					(5,320,710)	(5,320,710)
Foreign currency translation				(129,219)		(129,219)
Unrealized losses on marketable securities				(2,548)		(2,548)
Total comprehensive loss						(5,452,477)
Issuance of common stock, net of expenses	17,666,666	17,667	4,837,384			4,855,051
Exercise of options for common stock	80,000	80	1,220			1,300
Issuance of common stock for compensation	50,000	50	15,995			16,045
Issuance of options			139,573			139,573
Balance at 31 December 2010	68,167,109	\$68,167	\$69,447,376	\$(723,284)	\$(64,831,067)	\$3,961,192

See accompanying notes.

Financial statements

Consolidated statements of cash flows

Years ended 31 December	2010	2009
OPERATING ACTIVITIES		
Net loss	\$ (5,320,710)	\$ (4,836,031)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	232,121	328,348
Stock-based compensation	155,618	207,545
Amortization of discount on marketable securities	57,429	44,093
Changes in operating assets and liabilities:		
Accounts receivable	75,970	(37,865)
Investment tax credit receivable	2,348	71,405
Prepaid expenses and other assets	32,286	65,165
Accounts payable and accrued liabilities	146,310	(336,097)
Due from related parties	—	(105,046)
Net cash used in operating activities	(4,618,628)	(4,598,483)
INVESTING ACTIVITIES		
Purchases of equipment	(107,178)	(132,434)
Purchases of marketable securities	(6,028,955)	(6,779,141)
Maturities of marketable securities	6,849,339	10,231,655
Payment of patent costs	(10,564)	(38,443)
Other	(10,651)	(18,667)
Net cash provided by investing activities	691,991	3,262,970
FINANCING ACTIVITIES		
Repayment of long-term debt	(61,484)	(73,608)
Proceeds from issuance of debt	534,586	—
Proceeds from issuance of common stock, net	4,855,051	—
Proceeds from exercise of stock options	1,300	—
Net cash provided by (used in) financing activities	5,329,453	(73,608)
Effect of exchange rate changes on cash and cash equivalents	(22,887)	105,059
Net increase (decrease) in cash and cash equivalents	1,379,929	(1,304,062)
Cash and cash equivalents at beginning of year	1,197,260	2,501,322
Cash and cash equivalents at end of year	\$ 2,577,189	\$ 1,197,260
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid in cash	\$ 8,841	\$ 11,464

See accompanying notes.

Financial statements

Notes to the consolidated financial statements

for the year ended 31 December 2010

1. Nature of business and organization

Nature of business

AquaBounty Technologies, Inc. (the "Parent" or the "Company") was incorporated in December 1991 in the State of Delaware for the purpose of conducting research and development of the commercial viability of a group of proteins commonly known as antifreeze proteins (AFPs). In 1996, the Parent obtained the exclusive licensing rights for a gene construct (transgene) used to create a breed of farm-raised Atlantic salmon that exhibit growth rates that are substantially faster than traditional salmon.

AquaBounty Canada, Inc. (the "Canadian Subsidiary") was incorporated in January 1994 in Canada for the purpose of establishing a commercial biotechnology laboratory to produce antifreeze proteins and to conduct research and development programs related to the commercialization of cryopreservatives and the antifreeze gene construct.

AquaBounty Panama, S. de R.L. (the "Panama Subsidiary") was incorporated in May 2008 in Panama for the purpose of conducting commercial trials of the Company's AquAdvantage[®] Salmon.

Basis of consolidation

The consolidated financial statements include the accounts of AquaBounty Technologies, Inc. and its wholly-owned subsidiaries, AquaBounty Canada, Inc. and AquaBounty Panama, S. de R.L. The entities are collectively referred to herein as the "Company." All inter-company transactions and balances have been eliminated upon consolidation.

Basis of presentation

These consolidated financial statements have been prepared on a going concern basis in accordance with US Generally Accepted Accounting Principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company's ability to continue as a going concern is largely dependent on the Company's success in obtaining approval from the US Food and Drug Administration for its AquAdvantage[®] Salmon product and obtaining additional equity financing to fund its operations. Management has reviewed subsequent events through to 27 April 2011, which is the date the financial statements were approved for release.

2. Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates. We evaluate our estimates and assumptions on an ongoing basis, including those related to accrued expenses, royalty-based loan repayments and deferred tax assets. We base our estimates on historical experience and on other various specific assumptions that we believe are reasonable under the circumstances.

Comprehensive loss

The Company displays comprehensive loss and its components as part of its full set of consolidated financial statements. Comprehensive loss consists of net loss and other comprehensive loss. Other comprehensive loss includes foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities.

Foreign currency translation

The functional currency of the Parent is the US Dollar. The functional currency of the Canadian Subsidiary is the Canadian Dollar and the functional currency of the Panama Subsidiary is the US Dollar. For the Canadian Subsidiary, assets and liabilities are translated at the exchange rates in effect at the balance sheet date, equity accounts are translated at the historical exchange rate and the income statement accounts are translated at the average rate for each period during the year. Net translation gains or losses are adjusted directly to a separate component of other comprehensive loss within stockholders' equity.

Cash equivalents and available-for-sale securities

Cash equivalents and marketable securities primarily consist of money market funds, corporate obligations, and US government agency obligations. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash equivalents, which consist primarily of money market funds, are stated at amortized cost, which approximates market value.

The Company determines the appropriate classification of marketable securities at the time of purchase and re-evaluates such designation at each balance sheet date. All of the Company's marketable securities at 31 December 2010 and 2009 have been classified as "available-for-sale." Available-for-sale securities are reported at fair value, with the unrealized gains and losses reported in accumulated other comprehensive loss. The fair value of these securities is based on quoted market prices. The cost of available-for-sale securities is adjusted for the amortization of premiums and the accretion of discounts to maturity. Realized gains and losses and declines in value, if any, that are determined to be other-than-temporary on available-for-sale securities are reported in interest (expense) income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

2. Summary of significant accounting policies continued

Loan receivable

The Company was awarded a grant in January 2009 by the Atlantic Canada Opportunities Agency (ACOA) to conduct research and development in Canada. Under this program, the Company can receive contributions from ACOA equal to 69% of qualified research and development expenditures. Any funds received from ACOA must be repaid in the form of royalties on any products that are commercialized out of this research project. The Company records a loan receivable when qualified costs are incurred and submitted for reimbursement and recognizes the credit as an increase to its long-term debt.

Government assistance

From time to time the Company receives government assistance in the form of research grants, which are recorded as a reduction of the related expenditures. During the year, an amount of \$135,173 (2009: \$373,523) was recorded as a reduction of expenditures.

Intangible assets

Patent costs consist primarily of legal and filing fees incurred to file patents on proprietary technology developed by the Company. Patent costs are amortized on a straight-line basis over 20 years beginning with the issue date of the applicable patent. Licensing fees are capitalized and expensed over the term of the licensing agreement. Trademark costs are capitalized with no amortization as they have an indefinite life.

Property and equipment

Property and equipment are carried at cost, except for those owned by the Canadian Subsidiary which records such assets net of any related Canadian government grants received. The Company depreciates all asset classes over their estimated useful lives.

Building	25 years
Laboratory equipment	7 years
Office furniture and equipment	3 years
Leasehold improvements	3 years or lease term
Vehicle	3 years

Impairment of long-lived assets

The Company tests long-lived assets (which include property and equipment, intangibles and other assets) for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. Indicators of potential impairment include damage or obsolescence, plans to discontinue use or restructure, and poor financial performance compared with original plans. If indicators of impairment are present, a long-lived asset is tested for recoverability by comparing the carrying amount of the asset to the related estimated undiscounted future cash flows expected to be derived from the asset. If the expected cash flows are less than the carrying amount of a long-lived asset, then the long-lived asset is considered to be impaired and the carrying amount of the asset is written down to its fair value, based on the related estimated discounted future cash flows.

Investments

We record equity investments at their fair market value or estimated market value as of the balance sheet date and include any unrealized gains or losses in accumulated other comprehensive loss. Declines in value, if any, that are determined to be other-than-temporary are reported in interest (expense) income.

Revenue recognition

The Company records revenue from sales when the product is shipped to a customer, provided that: the Company has not retained any significant risks of ownership or future obligations with respect to the product shipped; the selling price is fixed and determinable; and collectability is reasonably assured.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recorded for the expected future tax consequences of temporary differences between the financial reporting and income tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse. A valuation allowance is established to reduce net deferred tax assets to the amount expected to be realized. The Company prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. All material tax positions are concluded as "highly certain." The Company does not expect any significant increase or decrease to the unrecognized tax benefits within twelve months of 31 December 2010.

Net loss per share

Basic and diluted net loss per share available to common stockholders has been calculated by dividing net loss by the weighted average number of common shares outstanding during the year. Basic net loss is based solely on the number of common shares outstanding during the year. Fully diluted net loss per share includes the number of shares of common stock issuable upon the exercise of warrants and options with an exercise price less than the fair value of the common stock. Since the Company is reporting a net loss for all periods presented, all potential common shares are considered anti-dilutive and are excluded from the calculation of diluted net loss per share.

Financial statements

Notes to the consolidated financial statements continued

for the year ended 31 December 2010

2. Summary of significant accounting policies continued

Stock-based compensation

The Company measures and recognizes all share-based payment awards, including stock options made to employees and Directors, based on estimated fair values. The fair value of share-based payment awards are estimated on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service period in the Company's consolidated statement of operations. The Company used the Black-Scholes option-pricing model (Black-Scholes) as its method of valuation in 2010. This fair value is then amortized on a straight-line basis over the requisite service period which is generally the vesting period. Non-employee stock-based compensation is accounted for using the Black-Scholes to determine the fair value of warrants or options awarded to non-employees with the fair value of such issuances expensed over the period of service.

Recent accounting pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued an amendment to the Fair Value Measurements and Disclosures topic of the Accounting Standards Codification (ASC). This amendment requires disclosures about the transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances and settlements related to Level 3 measurements. This amendment is effective for periods beginning after 15 December 2009. The adoption of this amendment did not have a material impact on the Company's financial position or results of operations.

In June 2009, the FASB issued its ASC Topic 105, Generally Accepted Accounting Principles, which became the single source of authoritative US Generally Accepted Accounting Principles (GAAP). The ASC is updated with Accounting Standards Updates (ASU), which replace accounting guidance that historically was issued as FASB Statements of Financial Accounting Standards (SFAS), FASB Interpretations (FIN), FASB Staff Positions (FSP), Emerging Issues Task Force (EITF) Issues or other types of accounting standards. The ASC does not change GAAP and does not impact the Company's financial statements.

3. Risks and uncertainties

The Company is subject to risks and uncertainties common in the biotechnology and aquaculture industries. Such risks and uncertainties include, but are not limited to: (i) results from current and planned product development studies and trials; (ii) decisions made by the FDA or similar regulatory bodies in other countries with respect to approval and commercial sale of any of the Company's proposed products; (iii) the commercial acceptance of any products approved for sale and the Company's ability to manufacture, distribute and sell for a profit any products approved for sale; (iv) the Company's ability to obtain the necessary patents and proprietary rights to effectively protect its technologies; and (v) the outcome of any collaborations or alliances entered into by the Company.

Concentration of credit risk

Financial instruments that subject the Company to a concentration of credit risk consist of cash and cash equivalents, marketable securities and accounts receivable. The risk with respect to cash and cash equivalents and marketable securities is minimized by maintaining deposits and securities at federally insured institutions. The risk with respect to accounts receivable is minimized by the creditworthiness of the Company's customers and the Company's credit and collection policies.

Financial instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and long-term debt, approximate their fair values as at 31 December 2010. As further described in Note 11, the Company's debt obligations to Technology Partnerships Canada (TPC) are repayable in the form of royalties on the sale of certain products; however, the obligation terminates on 30 June 2014 even if the debt has not been fully repaid as of that date. Similarly, the Company's debt obligations to ACOA for a research grant are repayable in the form of royalties on products that are developed through the research project and commercialized. Based on these terms, the fair value of the Company's long-term debt due to TPC and ACOA is not determinable. The fair value of marketable securities is based on quoted market prices (level 1).

Foreign sales

The Company expects that a portion of its product revenues will be derived from sales to foreign customers, principally in South America. All of these sales transactions will be denominated in the US Dollar to mitigate any foreign currency exchange risks. However, the Company is not able to predict the effect of political, geographical and other related risks upon future operating results.

4. Accounts receivable

Accounts receivable amounts are net of allowances for doubtful accounts which totalled \$nil in 2010 (2009: \$nil).

5. Loan receivable

The Canadian Subsidiary has periodically received funding commitments from various Canadian local, regional and federal government agencies (Note 11). The amount receivable was \$nil at 31 December 2010 (2009: \$185,484).

6. Marketable securities

The following is a summary of marketable securities at 31 December 2010 and 2009:

	2010 Amortized cost	2010 Fair value	2009 Amortized cost	2009 Fair value
Guaranteed investment contract	\$ 14,351	\$ 14,351	\$ 13,690	\$ 13,690
Corporate bonds due in 90 days or less	1,200,229	1,199,706	—	—
Corporate bonds due in 360 days or less	3,601,952	3,600,657	4,228,646	4,232,305
Corporate bonds due over 360 days	—	—	251,781	250,705
Total marketable securities	4,816,532	4,814,714	4,494,117	4,496,700
Less securities included in cash	(1,200,229)	(1,199,706)	—	—
Marketable securities	\$ 3,616,303	\$ 3,615,008	\$ 4,494,117	\$ 4,496,700

Interest income of \$13,432 (2009: \$107,064) and gross unrealized gains and losses of \$733 and \$2,028, respectively (2009: \$3,728 and \$1,145), were recognized in the consolidated statements of operations during 2010.

7. Property and equipment

Major classifications of property and equipment are summarized as follows:

	2010	2009
Land	\$ 101,491	\$ 96,732
Building	1,488,026	1,418,245
Laboratory equipment	1,792,456	1,630,004
Office furniture and equipment	613,778	594,346
Leasehold improvements	402,808	373,158
Vehicles	39,486	38,292
Total property and equipment	4,438,045	4,150,777
Less accumulated depreciation	(3,056,493)	(2,731,290)
Property and equipment	\$ 1,381,552	\$ 1,419,487

8. Patents and licenses

The following is a summary of patents and licenses at 31 December 2010 and 2009:

	2010	2009
Patents, gross	\$ 330,044	\$ 319,480
Less accumulated amortization	(243,640)	(215,858)
Patents	\$ 86,404	\$ 103,622
Licenses, gross	\$ 30,000	\$ 30,000
Less accumulated depreciation	(26,250)	(24,375)
Licenses	\$ 3,750	\$ 5,625

Patent amortization expense for 2010 was \$27,782 (2009: \$23,920). Estimated amortization expense for each of the next four years is \$27,782, \$27,782, \$248 and \$248. License amortization expense for 2010 was \$1,875 (2009: \$1,875). Estimated amortization expense for each of the next two years is \$1,875.

Financial statements

Notes to the consolidated financial statements continued

for the year ended 31 December 2010

9. Prepaid expenses and other assets

Prepaid expenses and other assets include the following at 31 December 2010 and 2009:

	2010	2009
Prepaid insurance	\$ 40,969	\$ 39,913
Prepaid supplies	24,811	13,794
Prepaid professional services	49,869	28,609
Prepaid rent and lease deposits, short-term	113,355	111,969
Short-term equity investment	7,228	5,375
Prepaid expenses and other assets	\$ 236,232	\$ 199,660
Trademarks	\$ 191,800	\$ 181,149
Prepaid rent and deposits, long-term	123,357	190,704
Long-term equity investment (Note 15)	21,628	21,628
Other assets	\$ 336,785	\$ 393,481

In 2008 the Company established a subsidiary in Panama for the purpose of conducting commercial field trials of one of its products. The Company entered into a land lease agreement for a term of five years commencing 1 October 2008. Under the terms of the lease, the Company agreed to pay for improvements to the site in lieu of rent. The Company incurred costs of \$346,735 for the site improvements during 2008. These costs are being amortized to rent expense over the term of the lease.

10. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the following at 31 December 2010 and 2009:

	2010	2009
Accounts payable	\$ 233,185	\$ 143,651
Accrued payroll including vacation	186,298	199,704
Accrued professional fees	172,969	105,803
Accrued research and development costs	25,000	25,000
Accrued other	31,341	11,943
Accrued taxes	5,506	4,733
Accounts payable and accrued liabilities	\$ 654,299	\$ 490,834

11. Long-term debt

The current terms and conditions of long-term debt outstanding at 31 December 2010 and 2009 are as follows:

Loan source	Amount	Interest rate	Monthly payment	Maturity date	2010	2009
EPEI loan	C\$300,000	6.657%	C\$3,738	December 2013	\$ 121,086	\$ 149,285
ACOA loan	C\$250,000	0%	C\$2,315	December 2013	83,328	105,901
ACOA AIF grant (Note 5)	C\$543,432	0%	Royalties	—	543,486	185,484
TPC funding	C\$2,964,900	0%	Royalties	June 2014	2,965,196	2,826,143
Total debt					3,713,096	3,266,813
Less: current portion					(65,731)	(60,272)
Long-term debt					\$ 3,647,365	\$ 3,206,541
Future repayments of long-term debt						Amount
2011						\$ 65,731
2012						68,335
2013						87,348
2014						2,948,196
2015						50,005
Thereafter						493,481
Total debt						\$ 3,713,096

11. Long-term debt continued

Enterprise PEI

Enterprise PEI (EPEI) is a provincial government agency which provides funding to promote the growth and development of companies within the province of Prince Edward Island. In July 1998, the Canadian Subsidiary received an EPEI loan commitment in the amount of C\$300,000. This loan was repaid in 2009. In August 2003, the Canadian Subsidiary secured another EPEI loan in the amount of C\$300,000 but did not borrow any funds under this loan until 2004. The Canadian Subsidiary has used the proceeds of this loan to expand a fish hatchery and purchase related equipment necessary to operate the hatchery. This loan is scheduled to be repaid in December 2013. The loan is collateralized by a demand note executed by the Canadian Subsidiary. In addition, the loan provides additional collateralization including fixed or floating liens on substantially all of the Company's assets, including land, building and fixtures and accounts receivable, as well as an assignment of fire insurance.

Atlantic Canada Opportunities Agency

ACOA is a Canadian government agency which provides funding to support the development of businesses and to promote employment in the Atlantic region of Canada. The Company has used the proceeds from this loan to expand a fish hatchery and purchase related equipment necessary to operate the hatchery. The loan is scheduled to be repaid in December 2013. In January 2009, the Company was awarded an Atlantic Innovation Fund (AIF) grant from ACOA to provide a contribution towards the funding of a research and development project. The total amount available under the award is C\$2,871,900 which can be claimed over a five-year period. All amounts claimed by the Company must be repaid in the form of a 10% royalty on any products that are commercialized out of this research project, until the loan is fully paid (Note 14). At 31 December 2010 the balance outstanding under this loan was C\$543,432 (2009: C\$194,591).

Technology Partnership Canada

TPC is a Canadian government agency which provides funding to promote economic growth and create jobs in Canada. In November 1999, TPC agreed to provide funding up to C\$2,964,900 to support the Canadian Subsidiary's efforts to develop commercial applications of its transgenic growth enhanced fin-fish technology. Funding under the TPC funding agreement was completed in 2003. The balance owing to TPC includes \$2,965,196 which is currently presented as being repayable beginning in 2012. This amount is repayable to TPC in the form of a 5.2% royalty on revenues generated from the sale of transgenic-based growth enhanced fin-fish commercial products (Note 14). In addition, the Company will have no further repayment obligations after 30 June 2014 even if the total amount has not been repaid as of such date.

12. Stockholders' equity

The Company is presently authorized to issue up to 140 million shares of stock, of which 40 million are authorized as preferred stock and 100 million as common stock. At 31 December 2010 the Company had nil shares (2009: nil) of preferred stock and 68,167,109 shares (2009: 50,370,443) of common stock, issued and outstanding.

Common stock

The holders of the common shares are entitled to one vote for each share held at all meetings of stockholders. Dividends and distribution of assets of the Company in the event of liquidation are subject to the preferential rights of any outstanding preferred shares. At 31 December 2010 the Company has reserved 9,825,141 shares of common stock for the exercise of options and warrants.

Recent issuances

On 29 October 2010 the Company issued 17,666,666 shares of common stock in an equity subscription to Linnaeus Capital Partners BV at a price of 18 pence (\$0.29) per share. Total proceeds of the issuance were \$5,124,252. Cash expenses incurred totalled \$269,201 resulting in net proceeds to the Company of \$4,855,051.

On 1 November 2010 the Company issued 50,000 shares of common stock as part of the compensation package for the Chairman of the Board of Directors. The Company recorded a compensation charge of \$16,045 in connection with the issuance.

In 2010 the Company received proceeds of \$1,300 in connection with the exercise of options to purchase 80,000 shares of common stock.

In 2009 the Company issued 153,846 shares of common stock as part of the compensation package for the Chairman of the Board of Directors. The Company recorded a charge of \$16,568 in connection with the issuance.

Financial statements

Notes to the consolidated financial statements continued

for the year ended 31 December 2010

12. Stockholders' equity continued

Warrants

The following table summarizes information about the number of warrants outstanding:

	Number of warrants	Weighted average exercise price
Outstanding at 31 December 2008	2,342,027	\$ 1.15
Expired	(115,000)	0.78
Outstanding at 31 December 2009	2,227,027	\$ 1.16
Expired	(349,659)	0.78
Outstanding at 31 December 2010	1,877,368	\$ 1.24
Expiration date	Warrants outstanding	Weighted average exercise price
2011	1,040,940	\$ 1.65
2012	836,428	0.72
Total warrants	1,877,368	\$ 1.24

Stock options

Unless otherwise indicated, options issued to employees, members of the Board of Directors and non-employees are vested over one to three years and are exercisable for a term of ten years from the date of issuance.

In 1998 the Company established a stock option plan (the "Plan"). The Plan provides for the issuance of incentive stock options to employees of the Company and non-qualified stock options and awards of restricted and direct stock purchases to Directors, officers, employees and consultants of the Company.

The following table summarizes stock-based compensation costs recognized in the Company's consolidated statements of operations for the years ended 31 December 2010 and 2009:

	2010	2009
Research and development	\$ 12,588	\$ 20,433
Sales and marketing	15,573	18,285
General and administrative	127,457	168,827
Total stock-based compensation	\$ 155,618	\$ 207,545

The market values of stock options granted to employees, members of the Board of Directors and non-employees during 2010 and 2009 were measured on the date of grant using Black-Scholes, with the following weighted average assumptions:

	2010	2009
Expected volatility	222%	280%
Risk-free interest rate	1.17%	0.21%
Expected dividend yield	0.0%	0.0%
Expected life (in years)	5	5

The risk-free interest rate is estimated using the Federal Funds interest rate for a period that is commensurate with the expected term of the awards. The expected dividend yield is zero because the Company has never paid a dividend and does not expect to do so for the foreseeable future. The expected life was based on a number of factors including vesting provisions, exercise price relative to market price and expected volatility. The Company believes that all groups of employees demonstrate similar exercise and post-vesting termination behavior and, therefore, does not stratify employees into multiple groups. The expected volatility was estimated using the Company's historical price volatility over a period that is commensurate with the expected term of the awards.

12. Stockholders' equity continued

Stock options continued

The Company's option activity under the Plan is summarized as follows:

	Number of options	Weighted average exercise price
Outstanding at 31 December 2008	7,703,192	\$ 0.33
Issued	2,920,000	0.11
Exercised	—	—
Expired	(2,616,731)	0.46
Outstanding at 31 December 2009	8,006,461	\$ 0.21
Issued	120,000	0.32
Exercised	(80,000)	0.02
Expired	(98,688)	0.70
Outstanding at 31 December 2010	7,947,773	\$ 0.20
Exercisable at 31 December 2010	5,924,439	\$ 0.23

The following table summarizes information about options outstanding and exercisable at 31 December 2010:

Weighted average price of outstanding options	Number of options outstanding	Weighted average remaining estimated life (in years)	Number of options exercisable	Weighted average price of outstanding and exercisable options
\$0.01	387,273	1.1	387,273	\$0.01
\$0.10	90,000	8.1	30,000	\$0.10
\$0.11	2,910,000	8.5	1,076,666	\$0.11
\$0.20	3,935,000	1.6	3,935,000	\$0.20
\$0.32	120,000	9.8	—	\$0.32
\$0.33	96,000	7.5	96,000	\$0.33
\$0.42	45,000	7.0	35,000	\$0.42
\$0.65	268,500	6.5	268,500	\$0.65
\$2.50	96,000	1.2	96,000	\$2.50
	7,947,773		5,924,439	\$0.23

The weighted average fair value of stock options granted in 2010 was \$0.32 (2009: \$0.11). The total intrinsic value of options exercised in 2010 was \$1,300 (2009: \$nil). At 31 December 2010, the total intrinsic value of all options outstanding was \$1,623,505 (2009: \$1,655,910) and the total intrinsic value of exercisable options was \$1,373,232 (2009: \$1,305,923).

At 31 December 2010, the balance of unearned stock-based compensation to be expensed in future periods related to unvested share-based awards is \$201,347. The period over which the unearned stock-based compensation is expected to be earned is approximately two years.

Recent issuances

During 2010 the Company granted options to purchase nil (2009: 300,000) shares of common stock to certain executive officers and employees. The Company recognized non-cash stock-based compensation charges of \$nil (2009: \$7,321) in connection with those grants in 2010. In addition, the Company recognized \$125,613 in compensation charges related to options granted in previous years.

In July 2009 the Company canceled and reissued options to purchase 2,500,000 shares of common stock to four senior executive officers. These options have an exercise price equal to the fair value of the Company's common stock on the date of issuance and a three-year vesting period. The Company recognized \$418 in compensation charges for the incremental value of the new option grant.

In November 2010 the Company issued 120,000 options (2009: 120,000) at an exercise price of \$0.32 under the terms of its service agreement with Non-executive Directors. The Company recognized a non-cash stock-based compensation charge of \$7,371 in 2010 for these options which vest over a one-year period. In addition, the Company recognized \$6,589 in compensation charges related to options granted in 2009.

Financial statements

Notes to the consolidated financial statements continued

for the year ended 31 December 2010

13. Income taxes

As at 31 December 2010 the Company has net domestic operating loss carryforwards of approximately \$30,000,000 to offset future federal taxable income and federal research and development tax credit carryforwards of approximately \$3,000 to offset future federal taxable income, which expires at various times through the year 2029. The future utilization of the net operating loss and tax credit carryforwards, however, may be subject to limitations based on the change in stock ownership rules of Internal Revenue Code Sections 382 and 383. The Company also has foreign net operating loss carryforwards in the amount of approximately \$5,000,000 and foreign investment tax credits of approximately \$2,000,000 at 31 December 2010, which expire at various times through 2029. Since the Company has incurred only losses from inception and there is uncertainty related to the ultimate use of the loss carryforwards and tax credits, a valuation allowance has been recognized to offset the Company's deferred tax assets.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	2010	2009
Deferred tax assets:		
Net operating loss carryforwards	\$ 13,734,915	\$ 13,303,679
Federal research and development tax credit carryforwards	3,127,343	2,836,796
Property and equipment	404,858	326,806
Accounts receivable and other	600	600
Stock options	1,457,636	1,522,134
Accrued vacation	46,984	51,099
Capital loss carryforwards	63,026	60,071
Intangible assets	(130,991)	(127,263)
Total deferred tax assets	18,704,371	17,973,922
Valuation allowance	(18,704,371)	(17,973,922)
Net deferred tax assets	\$ —	\$ —

The valuation allowance increased by \$730,449 during 2010, due primarily to the changes in net domestic operating loss carryforwards and federal research and development tax credit carryforwards.

14. Commitments and contingencies

The Company recognizes and discloses commitments when it enters into executed contractual obligations with other parties. The Company accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Lease commitments

The Company leases office space and laboratory space under non-cancelable operating leases. Total rent expense under non-cancelable operating leases in 2010 was \$197,591 (2009: \$225,344). Future minimum commitments under its operating leases are as follows:

Year ended 31 December	Amount
2011	\$ 80,437
Thereafter	—
Lease commitments	\$ 80,437

License agreements

The Company has entered into license agreements with HSC Research and Development, L.P., Genesis Group, Inc. and Research Corporation Technologies, Inc. The license agreement with HSC Research and Development, L.P. and Genesis Group, Inc. relates to the Company's transgenic fish program. Under this agreement, the Company is required to make an annual royalty payment of \$25,000, and revenue-based royalty payments equal to 5% of any gross revenues generated from products that utilize the technology covered under the license agreement. No revenue-based royalty payments have been made to date.

14. Commitments and contingencies continued

Royalty obligations

The Company is obligated to pay royalties to TPC in an amount equal to 5.2% of gross sales generated from the sale of any growth enhanced transgenic-based fin-fish commercial products. Such royalties are payable until the earlier of: (i) 30 June 2014; or (ii) until cumulative royalties of C\$5.75 million have been paid. No royalty payments have been made to date.

The Company is obligated to pay royalties to ACOA in an amount equal to 10.0% of gross sales generated from the sale of any new products that are developed through the research project that is being co-funded by ACOA. This royalty is for the repayment of the funds contributed by ACOA to the Company through the AIF grant. The first scheduled repayment is 21 July 2014 and subsequent repayments are due annually until the full balance of the contributed funds is paid. Total amount outstanding at 31 December 2010 is C\$543,432 and the maximum amount available under the grant is C\$2,871,900.

15. Related party transactions

In 2000 the Company entered into a shared services agreement with A/F Protein, Inc. (AFP), a related entity. AFP and the Company have certain Members of the Board of Directors as well as certain shareholders in common. The agreement was terminated in 2009 and the outstanding receivable balance was converted into 2,162,809 shares of AFP common stock with a fair value of \$21,628.

Notice of annual general meeting

Notice of annual general meeting

To our shareholders

Notice is hereby given that the Annual General Meeting (AGM) of shareholders of AquaBounty Technologies, Inc. (the "Company") will be held on Tuesday, 19 July 2011, at 8:30 a.m., Eastern Daylight Time, at the Millennium Bostonian Hotel, 26 North Street in Boston, Massachusetts for the following purposes:

- (1) To elect a Board of Directors to serve until the next AGM of shareholders or until their respective successors have been elected or appointed.
- (2) To consider such other business as may properly come before the AGM or any adjournments thereof.

The Board of Directors has fixed the close of business on Friday, 10 June 2011, as the record date for the determination of shareholders entitled to notice of, and to vote at, the meeting.

The AGM is open to shareholders and those guests invited by the Company. We encourage you to vote on the issues included in this proxy statement as soon as possible. You can vote in following ways:

- (1) By internet: go to www.capitashareportal.com and log in and select the "Proxy Voting" link. If you have not previously registered for electronic communications, you will first be asked to register as a new user, for which you will require your investor code (which can be found on the enclosed proxy form, your share certificate and tax voucher), family name and post code (if resident in the UK).
- (2) By mail: mark, sign, date and promptly return your proxy card. UK shareholders should fold the proxy card as directed so that the postage-paid return address is visible. Shareholders outside the UK should use the overseas postage-paid envelope provided.
- (3) At the meeting: attend the meeting and vote in person.

If you have any questions regarding your proxy card, you can contact Capita Registrars. UK shareholders can call 0871 664 0300 (calls cost 10 pence per minute plus network extras). Shareholders outside of the UK can call +44 208 639 3399.

By order of the Board of Directors,

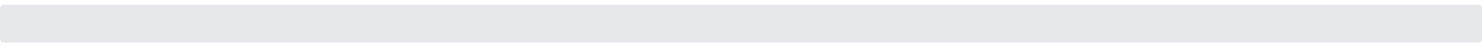
David A. Frank

Chief Financial Officer and Secretary

Notes

- (1) A form of proxy is enclosed for use by shareholders and, if appropriate, must be deposited with the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the AGM. Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.
- (2) A member entitled to attend and vote at the AGM may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.

To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorized to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- (3) Entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6:00 p.m. (BST) on 17 July 2011. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- (4) Shareholders wishing to vote online should visit www.capitashareportal.com and follow the instructions.



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