CAPILANO HONEY LIMITED

14 October 2010

NOTICE TO SHAREHOLDERS

Financial Update – First Quarter 2011

We report a first quarter result (unaudited) of $1.04 million net profit before tax, which builds on the strong result in the second half of the last financial year.

Specifically, the decision not to maintain certain export market segments in an environment of highly unfavourable exchange rates has improved our financial position. In addition, it also reduced markets for future honey surpluses and our honey quota pool has been adjusted accordingly.

The quarterly result is in line with our internal budgets and flows from the strategic changes to the business outlined in the Annual Report 2010.

Our bank debt has further reduced to $13.1 million from $18.1 million in June 2010. We remain in compliance with all financial covenants.

Although foreign exchange has become more unfavourable for exporters in recent weeks, the changes made to our business last financial year, together with foreign currency hedging, have mitigated its impact on our profitability.

Richlands' Processing Facility

The Annual Report 2010 identified our continued focus on expense reduction and working capital management.

For many years we have given consideration to operating only one processing facility in order to produce a lower cost business in an environment of growing competition. We have maintained the ability to operate out of either of two plants, Richlands or Maryborough (Victoria), while monitoring changes which would make a clear case for retention of either one or the other as our processing facility.

Following due consideration the Board of Directors has formed a view that the Richlands' factory be closed and Maryborough be retained as the single processing facility.

Key considerations include:

- Last year's decision to exit export market segments has substantially decreased the size of our business and thus our production capacity requirements;
- The Richlands facility is far greater than is required;
- The Maryborough facility, with some additional building improvement, is a far lower cost alternative than Richlands;
- The Maryborough facility can still deal with capacities in excess of current requirements;
- Financial comparisons of capital invested in the two sites favours retention of Maryborough and the sale of Richlands;
- Suburban housing development is finally encroaching on the industrial location of Richlands.

It is envisaged that the sale of the Richlands' site at an acceptable price will be the catalyst to the transfer of all packing to Maryborough.

The timing of such a move may be in the first half of FY2011.

We would continue to receive honey from our suppliers through Maryborough and our existing depots, as normal. It is envisaged a receivals depot at a convenient location would replace the Richlands' site.

Any decision on employees and redundancies would be made following the sale of the Richlands' property and when operational requirements are fully assessed.

Roger Masters
Managing Director