

**BEVO AGRO INC.**  
**CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
  
YEARS ENDED  
JUNE 30, 2006 AND 2005

## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheets of Bevo Agro Inc. as at June 30, 2006 and 2005 and the consolidated statements of operations and retained earnings and cash flow 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 audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

As required by the British Columbia Business Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

**"Morine & Company"**

Chartered Accountants

White Rock, Canada

August 18, 2006

**BEVO AGRO INC.**  
**CONSOLIDATED BALANCE SHEET**  
 JUNE 30, (Canadian \$)

	2006	2005
<b><u>ASSETS</u></b>		
<b>Current</b>		
Cash and cash equivalents	\$ 58,332	\$ 357,971
Accounts receivable	3,219,325	4,316,715
Income taxes receivable	265,584	473,807
Inventories	1,510,906	1,985,748
Prepaid expenses and deposits	110,758	44,289
	<b>5,164,905</b>	<b>7,178,530</b>
Mortgage receivable <i>[Note 17]</i>	689,167	-
Property, plant and equipment <i>[Note 4]</i>	30,109,385	31,343,788
Deferred costs, net of accumulated amortization <i>[Note 2]</i>	35,844	43,455
Goodwill <i>[Note 2]</i>	262,747	262,747
	<b>\$ 36,262,048</b>	<b>\$ 38,828,520</b>
<b><u>LIABILITIES</u></b>		
<b>Current</b>		
Bank indebtedness <i>[Note 5]</i>	\$ 1,000,495	\$ 1,393,198
Accounts payable and accruals	1,561,218	2,697,322
Current portion of long term debt <i>[Note 6]</i>	21,720,499	2,175,686
Current portion of obligations under capital lease <i>[Note 7]</i>	214,281	291,330
	<b>24,496,493</b>	<b>6,557,536</b>
Term debt <i>[Note 6]</i>	-	21,360,111
Obligations under capital lease <i>[Note 7]</i>	16,818	228,822
Future income tax liability <i>[Note 15]</i>	1,582,253	1,450,042
Due to a company with directors in common <i>[Notes 8 and 13]</i>	247,160	247,160
	<b>26,342,724</b>	<b>29,843,671</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>		
Capital stock <i>[Note 9]</i>	4,008,443	3,889,265
Contributed surplus	10,168	-
Retained earnings	5,900,713	5,095,584
	<b>9,919,324</b>	<b>8,984,849</b>
	<b>\$ 36,262,048</b>	<b>\$ 38,828,520</b>

Contingency *[Note 18]*  
 Commitments *[Note 12]*  
 On behalf of the Board:

"Jack Benne"  
 \_\_\_\_\_  
 Director

"Donald Fairholm"  
 \_\_\_\_\_  
 Director

See accompanying Notes to the Financial Statements

**BEVO AGRO INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND RETAINED EARNINGS**  
YEARS ENDED JUNE 30, (Canadian \$)

	<b>2006</b>	<b>2005</b>
<b>Sales</b>	<b>\$ 22,036,071</b>	\$ 21,756,304
<b>Cost of sales</b>	<b>15,004,813</b>	14,990,018
<b>Gross margin</b>	<b>7,031,258</b>	6,766,286
<b>Expenses</b>		
General operating	<b>1,498,921</b>	1,358,292
Administrative fees, wages and benefits	<b>1,120,337</b>	1,016,545
Amortization	<b>1,898,709</b>	2,072,028
Interest <i>[Note 14]</i>	<b>1,715,589</b>	1,804,785
	<b>6,233,556</b>	6,251,650
<b>Earnings from operations</b>	<b>797,702</b>	514,636
Gain on disposal of assets	-	6,497
<b>Income before income taxes</b>	<b>797,702</b>	521,133
<b>Provision for (recovery of) income taxes</b>		
Current	<b>(139,638)</b>	(292,749)
Future	<b>132,211</b>	(171,900)
	<b>(7,427)</b>	(464,649)
<b>Net income for the year</b>	<b>805,129</b>	985,782
<b>Retained earnings, beginning of the year</b>	<b>5,095,584</b>	4,109,802
<b>Retained earnings, end of the year</b>	<b>\$ 5,900,713</b>	\$ 5,095,584
Basic earnings per share	<b>\$ 0.03</b>	\$ 0.04
Fully diluted earnings per share	<b>\$ 0.03</b>	\$ 0.04

See accompanying Notes to the Financial Statements

**BEVO AGRO INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOW**  
YEARS ENDED JUNE 30, (Canadian \$)

	2006	2005
<b>Cash flows from operating activities</b>		
Net earnings for the year	\$ 805,129	\$ 985,782
Items not involving cash		
Amortization	1,898,709	2,072,028
Future income taxes	132,211	( 171,900)
Non-cash interest	119,178	499,312
Loss (gain) on disposal of assets	-	( 6,497)
Changes in non-cash working capital <i>[Note 10]</i>	577,882	( 1,434,531)
	<b>3,533,109</b>	1,944,194
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	( 646,695)	( 1,284,417)
Proceeds on disposal of property, plant and equipment	-	309,952
Mortgage receivable	( 689,167)	-
Deferred costs	( 10,000)	-
	<b>( 1,345,862)</b>	( 974,465)
<b>Cash flows from financing activities</b>		
Bank indebtedness	( 392,703)	853,492
Advances under term debt	416,133	380,000
Long-term debt repayments	( 2,231,431)	( 1,947,325)
Payments of obligations under capital lease	( 289,053)	( 462,648)
Loans from a company with directors in common	-	( 150,000)
Shares issued for cash	-	233,813
Contributed surplus	10,168	-
	<b>( 2,486,886)</b>	( 1,092,668)
<b>Increase (decrease) in cash</b>	<b>( 299,639)</b>	( 122,939)
Cash, beginning of year	357,971	480,910
<b>Cash, end of year</b>	<b>\$ 58,332</b>	<b>\$ 357,971</b>
<b>Supplementary information:</b>		
Interest paid (in cash)	\$ 1,596,411	\$ 1,305,473
Interest paid on convertible debenture (issuance of shares)	119,178	499,312
<b>Total interest paid</b>	<b>\$ 1,715,589</b>	<b>\$ 1,804,785</b>

See accompanying Notes to the Financial Statements

# **BEVO AGRO INC.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED JUNE 30, 2006

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### **1. Organization**

Bevo Agro Inc. was incorporated July 9, 1985, under the *Company Act* of British Columbia, which has been replaced with the *Business Corporations Act* (British Columbia). The stock is publicly traded on the TSX Venture Exchange under the symbol (BVO). The consolidated financial statements include the operations of Bevo Agro Inc. and its wholly-owned subsidiaries: Bevo Farms Ltd. (Langley, BC), Bevo Agro Inc. (Nevada) and Bevo Farms Inc. (Arizona), from the date of acquisition on July 11, 2000.

Bevo Farms Ltd. operates 34 acres of propagation greenhouse facilities on 98 acres of land in Langley, B.C. The company's main products are the propagation of vegetable plants such as tomatoes, peppers, cucumbers, and other plants such as bedding plants, flowers, trees, grapes and grasses. In general the company markets its products to established greenhouse growers and nurseries throughout North America.

Bevo Agro Inc. (a Nevada corporation) and Bevo Farms Inc. (an Arizona corporation) are both inactive.

### **2. Significant accounting policies**

#### **Consolidation**

The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated.

#### **Use of estimates**

The preparation of 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 revenue and expenses during the reporting period. Significant financial statement items which involve measurement uncertainty include accounts receivable, inventories, and accounts payable and accruals. Actual results could differ from those estimates.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, balances with banks, and highly liquid temporary investments with maturities of three months or less at the time of acquisition.

#### **Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets are acquired or obligations incurred. Revenue and expense items are translated at the average rate of exchange for the period. Foreign exchange gains and losses are included in income.

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
YEARS ENDED JUNE 30, 2006

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**2. Significant accounting policies (continued)**

**Inventories**

Inventories are valued at the lower of cost and the net realizable value for work in process and at current replacement cost for raw materials. The cost of inventories includes the cost of materials, labour and direct overhead costs.

**Income taxes**

The company uses the asset and liability method of accounting for income taxes. Under this 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 enacted or substantively enacted Canadian tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When realization of future income tax assets does not meet the more likely than not criterion then a valuation allowance is provided.

**Revenue recognition**

Revenue is recognized using the completed contract method of accounting when the propagation process is completed and the products are shipped to the customers.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost. Amortization is provided using the declining-balance basis at the following annual rates:

<b>Assets</b>	<b>Rate</b>
Buildings	2.5 - 5 %
Greenhouse, shade and packaging equipment	5 %
Land improvements	5 %
Machinery and equipment	10 - 30%

Equipment under capital leases is amortized over the term of the lease agreement.

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
YEARS ENDED JUNE 30, 2006

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**2. Significant accounting policies (continued)**

**Deferred costs**

Costs incurred to obtain debt financing are deferred and amortized on a straight-line basis over the term of the financing obtained.

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	<b>2006</b>	<b>2005</b>
Deferred financing fees	\$ 35,844	\$ 43,455

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**Goodwill**

Goodwill represents the excess of the purchase price over the fair values of net assets acquired in the acquisition of a propagation greenhouse facility. The company has adopted the Canadian generally accepted accounting principles for recording goodwill. As a result, goodwill is no longer amortized to income. Instead, the carrying value of goodwill is reviewed on an annual basis to determine if there has been an impairment. The carrying value of goodwill will be written down if the value is permanently impaired. An impairment exists if the future cash flows from the operations are less than the net book value. Management is of the opinion that there has been no diminution in the value assigned.

**Net earnings per common share**

Basic earnings per share are computed by dividing the net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

**3. Seasonality of operations**

Sales of seedling and bedding plants are based upon customer demand and deliveries are scheduled according to customer requirements, which fluctuate from season to season. Since fixed costs such as interest, amortization and overhead costs apply uniformly throughout the year, profitability results may vary significantly from quarter to quarter.



# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006

### 4. Property, plant and equipment

	Cost	Accumulated Amortization	Net book value 2006
Land	\$ 2,406,212	\$ -	\$ 2,406,212
Land improvements	624,782	143,637	481,145
Buildings	904,026	168,360	735,666
Equipment under capital lease	1,516,989	1,160,246	356,743
Greenhouse, shade and packing equipment	28,459,600	6,936,912	21,522,688
Machinery and equipment	6,698,306	2,522,562	4,175,744
Capital projects in progress	431,187	-	431,187
	<b>\$ 41,041,102</b>	<b>\$ 10,931,717</b>	<b>\$ 30,109,385</b>

	Cost	Accumulated Amortization	Net book value 2005
Land	\$ 2,406,212	\$ -	\$ 2,406,212
Land improvements	613,057	118,622	494,435
Buildings	901,506	135,098	766,408
Equipment under capital lease	1,486,519	815,417	671,102
Greenhouse, shade and packing equipment	28,443,095	5,806,625	22,636,470
Machinery and equipment	6,436,109	2,174,857	4,261,252
Capital projects in progress	107,909	-	107,909
	<b>\$ 40,394,407</b>	<b>\$ 9,050,619</b>	<b>\$ 31,343,788</b>

### 5. Bank indebtedness

The company has a revolving line of credit in the amount of \$2,500,000. This line of credit bears interest at prime, is due on demand and is secured by the same security provided for the bank term loans described in Note 6.

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006

### 6. Term and subordinated debt

	2006	2005
Bank of Nova Scotia loan, maturing in September 2008, carries interest at 6.35% per annum, repayable with blended monthly payments of \$25,110.	\$ 1,716,417	\$ 1,902,250
Bank of Nova Scotia loan, maturing in September 2006, carries interest at 6.00% per annum, repayable with blended monthly payments of \$14,038.	686,108	809,335
Bank of Nova Scotia loan, maturing in September 2006, carries interest at 5.55% per annum, repayable with blended monthly payments of \$20,877.	1,008,937	1,197,719
Bank of Nova Scotia loan, maturing in October 2007, repayable with monthly principal payments of \$1,667. Interest is payable monthly at prime plus 1% per annum.	9,354	29,422
Bank of Nova Scotia loan, maturing in September 2006, carries interest at 6.00% per annum, repayable with blended monthly payments of \$14,110.	1,140,244	1,237,928
Bank of Nova Scotia loan, maturing in September 2006, carries interest at 6.00% per annum, repayable with blended monthly payments of \$37,965.	3,252,611	3,504,708
Bank of Nova Scotia loan, maturing in September 2008, carries interest at 6.35% per annum, repayable with blended monthly payments of \$28,066.	2,545,224	2,714,489
Bank of Nova Scotia loan, maturing in September 2006, carries interest at 5.65% per annum, repayable with blended monthly payments of \$39,047.	606,491	1,027,740
Bank of Nova Scotia loan, maturing February 2007, carries interest at prime plus 1% per annum, repayable with blended monthly payments of \$15,835.	126,640	316,660
Bank of Nova Scotia loan, maturing in May 2009, repayable with monthly principal payments of \$25,000. Interest is payable monthly at prime plus 1% per annum	800,000	1,100,000
Bank of Nova Scotia loan, maturing in May 2009, carries interest at 6.40% per annum, repayable with blended monthly payments of \$42,990.	4,473,807	4,695,546
Bank of Nova Scotia term-debt	\$ 16,365,833	\$ 18,535,797

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**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
YEARS ENDED JUNE 30, 2006

**6. Term and subordinated debt (continued)**

	2006	2005
Bank of Nova Scotia term-debt	\$ 16,365,833	\$ 18,535,797
De Lage Landen loan, maturing September, 2009, carries interest of 7.75% repayable with blended monthly payments of \$7,753.	307,704	-
De Lage Landen loan, maturing September, 2009, carries interest of 7.75% repayable with blended monthly payments of \$1,141.	46,962	-
	<b>16,720,499</b>	18,535,797
<b>Subordinated debt</b>		
Banyan Capital Partners Limited Partnership convertible debenture, maturing September 2007. Interest is 10% per annum. The principal amount may be converted into common shares of Bevo Agro Inc. at \$0.66 for 2006 and \$0.73 for 2007.	5,000,000	5,000,000
	<b>21,720,499</b>	23,535,797
Less: current portion of term debt	( 21,720,499)	( 2,175,686)
<b>Total term debt</b>	<b>\$ -</b>	<b>\$ 21,360,111</b>

The bank loans are secured by a general security agreement, collateral mortgage on capital assets, general assignment of inventory, receivables, equipment, property insurance and unlimited corporate guarantees of the principal shareholder. The De Lage Landen loans are secured by the computer hardware purchased.

The Company has signed a commitment letter for a new credit facility totaling \$25 million with the BMO Bank of Montreal. The facility includes \$3 million revolving operating line of credit, a \$17 million term loan facility amortized over 15 years with the proceeds being utilized to pay out existing debt. A \$5 million standby term loan amortized over 14 years to be drawn down by September 2007 to pay out the maturing subordinated debt, is also included in the facility.

It is the Company's intention to refinance the long term debt totaling \$16,365,833 with the new financing obtained from the BMO Bank of Montreal.

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
YEARS ENDED JUNE 30, 2006

**6. Term and subordinated debt (continued)**

Principal payments on mortgages and subordinated debt required to be made in the next year and thereafter are as follows:

	<b>2006</b>	<b>2005</b>
2006	\$ -	\$ 2,175,686
2007	<b>21,720,499</b>	2,204,261
2008	-	6,858,863
2009	-	1,691,044
2010 and there after	-	10,605,943
	<b>\$ 21,720,499</b>	<b>\$ 23,535,797</b>

**Security agreement**

The company has issued to Banyan Capital Partners Limited Partnership a convertible debenture in the principal amount of \$5,000,000. The debenture is secured by a fixed and floating charge on the assets of the subsidiary, Bevo Farms Ltd., subordinate to the existing security granted on the company's debt.

**7. Obligations under capital leases**

	<b>2006</b>	<b>2005</b>
Obligations under capital lease	\$ 233,199	\$ 614,114
Less: imputed interest	2,100	93,962
	<b>231,099</b>	520,152
Less: current portion	<b>214,281</b>	291,330
	<b>\$ 16,818</b>	<b>\$ 228,822</b>

Future minimum lease payments for the next three years are as follows:

	<b>2006</b>	<b>2005</b>
2006	\$ -	\$ 291,330
2007	<b>214,281</b>	214,281
2008	<b>16,818</b>	14,541
	<b>\$ 231,099</b>	<b>\$ 520,152</b>

Annualized interest rates range from 3.9% to 7.0%.

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
YEARS ENDED JUNE 30, 2006

**8. Due to a company with directors in common**

The amount due to C.G.M. Ventures Inc. is unsecured, non-interest bearing and has no set terms of repayment. The lender has agreed not to demand repayment of the loan in the next fiscal period and it is therefore classified as a non-current liability.

**9. Capital stock**

Authorized

Unlimited common shares with no par value.

	Number of Shares	Amount
Issued and outstanding as at June 30, 2005	25,203,201	\$ 3,889,265
Shares issued in payment of interest on convertible debenture	332,732	119,178
Issued and outstanding as at June 30, 2006	25,535,933	\$ 4,008,443

	Number of Shares	Amount
Issued and outstanding as at June 30, 2004	23,139,896	\$ 3,156,141
Issue of shares due to exercise of stock options	868,750	233,812
Issue of shares in payment of interest on convertible debenture	1,194,555	499,312
Issued and outstanding as at June 30, 2005	25,203,201	\$ 3,889,265

(a) Summary of stock options outstanding as at June 30, 2006.

Security type	Number outstanding	Price	Expiry date
Share options	130,000	\$ 0.30	December 15, 2007
Share options	500,000	\$ 0.28	May 12, 2009

(continued)

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
YEARS ENDED JUNE 30, 2006

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**9. Capital stock (continued)**

- (b) The company has adopted a stock option plan, which reserved 2,411,900 shares for issuance under Plan options and any outstanding prior options granted outside of the Plan. Shares reserved under Plan options or prior options that expire, terminate or otherwise cease to be exercisable will become available for the issuance of future options under the Plan, subject to the 2,411,900 share maximum. The number of shares reserved does not exceed 10% of the Company's current issued and outstanding share capital.
- (c) On May 12, 2006 the Company granted stock options under its 2004 stock option plan to the directors and officers for the purchase of 500,000 common shares at a price of \$0.28 per share. One third of these options are exercisable as of May 12, 2006, one third are exercisable May 12, 2007, and one third are exercisable on May 12, 2008. The options expire on May 12, 2009.

**10. Changes in non-cash operating working capital**

	2006	2005
Accounts receivable	\$ 1,097,390	\$( 1,971,524)
Income taxes receivable	208,223	( 18,947)
Prepaid expenses and deposits	( 66,469)	138,628
Inventories	474,842	( 473,097)
Accounts payable and accruals	( 1,136,104)	890,409
	<b>\$ 577,882</b>	<b>\$( 1,434,531)</b>

**11. Financial instruments and risk management**

The company has various financial instruments including cash, receivables, amounts due to a company with directors in common, payables, income taxes payable and term debt. The carrying value of all the financial instruments approximate their fair value.

The company is exposed to the following risks related to its financial assets and liabilities:

**Currency risk**

The company is exposed to currency risk as some of its accounts receivable are denominated in U.S. dollars. The company earns some revenue in U.S. dollars and incurs most of its expenses in Canadian dollars.

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**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
YEARS ENDED JUNE 30, 2006

**11. Financial instruments and risk management (continued)**

**Interest rate risk**

The company's debt has both fixed and floating interest rates. At June 30, 2006, the fair market value of the term debt and subordinate debt approximates the book value of \$21,720,499 (June 2005: \$23,535,797).

	2006	2005
<b>Fixed interest rates</b>		
Mortgages	\$ 15,429,839	\$ 17,089,715
Convertible debenture	5,000,000	5,000,000
	<b>20,429,839</b>	22,089,715
<b>Floating interest rates</b>		
Mortgages - floating interest rates	1,290,660	1,446,082
	<b>\$ 21,720,499</b>	<b>\$ 23,535,797</b>
<b>Floating interest rate</b>		
Operating line-of-credit	\$ 1,000,495	\$ 1,393,198

**Credit risk**

The company is subject to credit risk through accounts receivable. Credit risk is minimized as the company's customers are geographically dispersed and a substantial portion of the company's sales are to customers with whom long term business relationships have been established.

**12. Commitments**

**Operating leases**

The company has entered into automobile operating leases. The future minimum lease payments for the next three years are as follows:

	2006	2005
2006	\$ -	\$ 18,099
2007	9,305	9,305
2008	6,374	6,374
2009	5,843	5,843
	<b>\$ 21,522</b>	<b>\$ 39,621</b>

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
YEARS ENDED JUNE 30, 2006

**13. Related party transactions**

	2006	2005
<i>The company participated in transactions with related parties as follows:</i>		
Management fees paid to a company with directors in common	\$ 504,000	\$ 504,000
Directors fees	56,023	28,369
Professional fees paid to companies owned by directors	122,847	127,195
Interest paid to a company with directors in common	500,000	499,312
Loan to a company owned with directors in common	-	212,572
<i>The company received the following payment from related parties:</i>		
From a company owned by a director	\$ 37,500	\$ -

	2006	2005
<i>The company has the following related party loans payable:</i>		
Subordinated loan from a company with directors in common	\$ 5,000,000	\$ 5,000,000
Due to a company with directors in common	247,160	247,160

	2006	2005
<i>The company has the following related party balance in accounts receivable:</i>		
Due from a company with directors in common	\$ 247,160	\$ 212,572

The President and Vice-President provide management services to the Company via their management company. The management fees are approved annually by the Board of Directors. Two directors provide additional professional services to the Company via their professional corporations. Their services are in the normal course of operations and are measured at the exchange amount of consideration. One of the directors is a principal of Banyan Capital Partners Limited Partnership, a creditor of the company.



# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006

### 14. Interest

	2006	2005
Interest expense -operating line of credit	\$ 90,719	\$ 64,655
-term debt	1,101,840	1,173,336
-convertible debenture	500,000	499,312
-capital leases	21,439	64,500
-other	1,591	2,982
	<b>\$ 1,715,589</b>	<b>\$ 1,804,785</b>

### 15. Future income tax liabilities

The company has recorded a provision for estimated income tax liabilities as follows:

	2006	2005
Tax assets:		
Tax losses available for carry forward	\$ 427,493	\$ 477,498
Goodwill, tax deductions available in excess of amortization	66,750	77,755
	<b>494,243</b>	<b>555,253</b>
Tax liabilities		
Property, plant and equipment - net book value in excess of undepreciated capital cost	(2,076,496)	(2,005,295)
Net future income tax liability	<b>\$ (1,582,253)</b>	<b>\$ (1,450,042)</b>

**BEVO AGRO INC.**  
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**16. Segmented information**

The company operates in only one industry segment: propagation of greenhouse products. Geographic information is as follows:

	2006	2006	2005	2005
	Sales	Property, plant and equipment	Sales	Property, plant and equipment
Canada	\$ 15,020,289	\$ 30,109,385	\$ 13,736,141	\$ 31,343,788
United States	6,599,753	-	7,668,746	-
Mexico	408,833	-	351,417	-
	<b>\$ 22,028,875</b>	<b>\$ 30,109,385</b>	<b>\$ 21,756,304</b>	<b>\$ 31,343,788</b>

**17. Mortgage receivable**

During the year, a customer defaulted on payment of their trade accounts receivable. The Company has obtained security for the trade account receivable by obtaining a mortgage on the property owned by the customer.

The terms and conditions of the mortgage are as follows:

	2006
One half of the balance owing to be paid on December 31, 2005, with the balance to be paid on December 31, 2006. Interest payable is 8%.	<b>\$ 689,167</b>

As the customer defaulted on the December 31, 2005 payment, the Company has initiated foreclosure proceedings on the property held as security.

**18. Contingent liability**

The Company has been named as a defendant in a discrimination law suit. The Company is actively defending its position. Any liability is not known at this time.