

**BEVO AGRO INC.**  
**CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

## **NOTICE TO READER**

I have prepared these interim unaudited financial statements for Bevo Agro Inc. in my capacity as Director and Chief Financial Officer. No independent firm of professional accountants has audited, reviewed or otherwise attempted to verify the accuracy or completeness of these financial statements.

**D. FAIRHOLM, CA**

Milner, B.C.  
May 26, 2006

**BEVO AGRO INC.**  
**CONSOLIDATED BALANCE SHEET**  
MARCH 31, 2006 (Canadian \$)

	March 31, 2006 (Unaudited)	June 30, 2005 (Audited)	March 31, 2005 (Unaudited)
<b><u>ASSETS</u></b>			
<b>Current</b>			
Cash and cash equivalents	\$ 57,612	\$ 357,971	\$ 54,756
Accounts receivable	5,158,307	4,316,715	2,922,069
Income taxes receivable	-	473,807	-
Inventories	5,295,513	1,985,748	5,836,468
Prepaid expenses and deposits	97,378	44,289	127,027
	<b>10,608,810</b>	<b>7,178,530</b>	<b>8,940,320</b>
Property, plant and equipment <i>[Note 4]</i>	30,554,448	31,343,788	31,428,059
Deferred costs, net of accumulated amortization <i>[Note 2]</i>	30,248	43,455	136,065
Goodwill <i>[Note 2]</i>	262,747	262,747	262,747
	<b>\$ 41,456,253</b>	<b>\$ 38,828,520</b>	<b>\$ 40,767,191</b>
<b><u>LIABILITIES</u></b>			
<b>Current</b>			
Bank indebtedness <i>[Note 5]</i>	\$ 2,969,498	\$ 1,393,198	\$ 2,618,664
Accounts payable and accruals	4,929,658	2,697,322	3,441,450
Current portion of long term debt <i>[Note 6]</i>	22,250,090	2,175,686	2,150,816
Current portion of obligations under capital lease <i>[Note 7]</i>	249,053	291,330	312,432
	<b>30,398,299</b>	<b>6,557,536</b>	<b>8,523,362</b>
Term debt <i>[Note 6]</i>	-	21,360,111	21,910,379
Obligations under capital lease <i>[Note 7]</i>	20,732	228,822	287,873
Future income tax liability <i>[Note 15]</i>	1,371,801	1,450,042	1,514,540
Due to a company with directors in common <i>[Notes 8 and 13]</i>	247,160	247,160	327,333
	<b>32,037,992</b>	<b>29,843,671</b>	<b>32,563,487</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>			
Capital stock <i>[Note 9]</i>	4,008,443	3,889,265	3,718,295
Retained earnings	5,409,818	5,095,584	4,485,509
	<b>9,418,261</b>	<b>8,984,849</b>	<b>8,203,804</b>
	<b>\$ 41,456,253</b>	<b>\$ 38,828,520</b>	<b>\$ 40,767,291</b>

Commitments *[Note 12]*

On behalf of the Board:

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

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

UNAUDITED - SEE NOTICE TO READER  
See accompanying Notes to the Financial Statements

**BEVO AGRO INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND RETAINED EARNINGS**  
PERIODS ENDED MARCH 31, (Canadian \$)

	For the three months ended March 31, 2006	For the nine months ended March 31, 2006	For the three months ended March 31, 2005	For the nine months ended March 31, 2005
<b>Sales</b>	\$ 5,160,195	\$13,478,681	\$ 4,783,461	\$13,383,968
<b>Cost of sales</b>	3,118,018	8,499,040	2,846,488	8,206,151
<b>Gross margin</b>	2,042,177	4,979,641	1,936,973	5,177,817
<b>Expenses</b>				
General operating	413,673	1,204,991	371,357	1,165,220
Administrative fees, wages and benefits	283,233	821,042	338,740	854,602
Amortization	469,413	1,434,346	517,530	1,544,271
Interest <i>[Note 14]</i>	418,331	1,283,269	453,021	1,351,916
	1,584,650	4,743,648	1,680,648	4,916,009
<b>Earnings from operations</b>	457,527	235,993	256,325	261,808
Gain on disposal of assets	-	-	6,497	6,497
<b>Income before income taxes</b>	457,527	235,993	262,822	268,305
Provision for (recovery of) income taxes				
Future	(2,654)	(78,241)	91,987	(107,402)
<b>Net income for the period</b>	460,181	314,234	170,835	375,707
<b>Retained earnings, beginning of the period</b>	4,949,637	5,095,584	4,314,674	4,109,802
<b>Retained earnings, end of the period</b>	\$ 5,409,818	\$ 5,409,818	\$ 4,485,509	\$ 4,485,509
Basic earnings per share	\$ 0.02	\$ 0.01	\$ 0.01	\$ 0.02
Fully diluted earnings per share	\$ 0.02	\$ 0.01	\$ 0.01	\$ 0.02

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**BEVO AGRO INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
PERIODS ENDED MARCH 31, (Canadian \$)

	For the three months ended March 31, 2006	For the nine months ended March 31, 2006	For the three months ended March 31, 2005	For the nine months ended March 31, 2005
<b>Cash flows from operating activities</b>				
Net earnings for the period	\$ 460,181	\$ 314,234	\$ 170,835	\$ 375,707
Items not involving cash				
Amortization	469,413	1,434,346	517,530	1,544,271
Future income taxes	( 2,654)	( 78,241)	91,987	( 107,402)
Non-cash interest		119,178	123,288	374,654
Loss (gain) on disposal of assets			( 6,497)	( 6,497)
Changes in non-cash working capital [Note 10]	(2,992,311)	(1,498,303)	(1,561,721)	(2,755,408)
	(2,065,371)	291,214	( 664,578)	( 574,675)
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	( 23,299)	( 631,797)	( 208,778)	( 846,332)
Proceeds on disposal of property, plant and equipment	-	-	309,952	309,952
	( 23,299)	( 631,797)	101,174	( 536,380)
<b>Cash flows from financing activities</b>				
Bank indebtedness	2,287,328	1,576,300	701,000	2,078,958
Deferred costs	-	-	4,851	( 87,308)
Advances under term debt	-	-	380,000	380,000
Long-term debt repayments	( 569,510)	(1,285,709)	( 494,671)	(1,421,927)
Payments of obligations under capital lease	( 71,076)	( 250,367)	( 102,890)	( 382,495)
Loans from a company with directors in common	-	-	( 64,678)	( 69,827)
Shares issued for cash	-	-	-	187,500
	1,646,742	40,224	423,612	684,901
<b>Increase (decrease) in cash</b>	( 441,928)	( 300,359)	( 139,792)	( 426,154)
Cash, beginning of period	499,540	357,971	194,548	480,910
<b>Cash, end of period</b>	\$ 57,612	\$ 57,612	\$ 54,756	\$ 54,756
<b>Supplementary information:</b>				
Interest paid	\$ 418,331	\$ 1,164,091	\$ 329,733	977,262

UNAUDITED - SEE NOTICE TO READER  
See accompanying Notes to the Financial Statements

# **BEVO AGRO INC.**

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

PERIODS ENDED MARCH 31, 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 subsidiary: Bevo Farms Ltd. (Langley, BC), 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, cranberries and grasses. In general the company markets its products to established greenhouse growers and nurseries throughout North America.

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

#### **Consolidation**

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

#### **Interim reporting**

In the opinion of management the unaudited quarterly consolidated financial statements reflect all adjustments consisting only of normal and recurring adjustments, necessary to present fairly the financial position at March 31, 2006, and the results of operations and changes in the financial position for the nine months ended March 31, 2006, in accordance with accounting principles generally accepted in Canada. These financial statements should be read in conjunction with the company's audited financial statements and notes thereto related to the year ended June 30, 2005.

#### **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.

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED MARCH 31, 2006

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

**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.

**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.

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED MARCH 31, 2006

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

**Capital assets**

Capital assets are recorded at cost. Amortization is provided using the declining-balance basis at the following annual rates:

Assets	Rate
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.

**Deferred costs**

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

	March 31, 2006	June 30, 2005	March 31, 2005
Deferred financing fees	\$ 30,248	\$ 43,455	\$ 136,065

**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.



# **BEVO AGRO INC.**

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

PERIODS ENDED MARCH 31, 2006

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

#### **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

PERIODS ENDED MARCH 31, 2006

### 4. Property, plant and equipment

	Cost	Accumulated Amortization	Net book value March 31, 2006
Land	\$ 2,406,212	\$ -	\$ 2,406,212
Land improvements	624,782	137,341	487,441
Buildings	904,026	159,993	744,033
Equipment under capital lease	1,788,689	1,325,365	463,324
Greenhouse, shade and packing equipment	28,457,901	6,654,256	21,803,645
Machinery and equipment	6,423,129	2,194,801	4,228,328
Capital projects in progress	421,465	-	421,465
	<b>\$ 41,026,204</b>	<b>\$ 10,471,756</b>	<b>\$ 30,554,448</b>

	Cost	Accumulated Amortization	Net book value June 30, 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 \$3,000,000. 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

PERIODS ENDED MARCH 31, 2006

### 6. Term and subordinated debt

	March 31, 2006	June 30, 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.	\$ 1,763,760	\$ 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.	717,524	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.	1,057,002	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.	14,419	29,422
Bank of Nova Scotia loan, maturing in September 2006, carries interest at 6.00% per annum, repayable with blended monthly payments of \$14,100.	1,165,074	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.	3,316,657	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.	2,588,220	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.	713,967	1,027,740
Bank of Nova Scotia loan, maturing February 2007, carries interest at prime plus 1% per annum, repayable with blended monthly payments.	174,145	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	875,000	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.	4,529,995	4,695,546
<b>Bank of Nova Scotia term-debt</b>	<b>\$ 16,915,763</b>	<b>\$ 18,535,797</b>

(continued on the next page)

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**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED MARCH 31, 2006

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

	March 31, 2006	June 30, 2005
Bank of Nova Scotia term-debt	\$ 16,915,763	\$ 18,535,797
De Lage Landen loan, maturing September, 2009, carries interest of 7.75% repayable with blended monthly payments of \$7,753.	292,472	-
De Lage Landen loan, maturing September, 2009, carries interest of 7.75% repayable with blended monthly payments of \$1,141.	41,855	-
	<b>17,250,090</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>22,250,090</b>	23,535,797
Less: current portion of term debt	( 22,250,090)	( 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 loan is secured by the computer hardware purchased.

It is the company's intention to renew the long-term debt as it becomes renewable in the normal course of business at prevailing interest rates and repayment terms at the time of renewal.

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED MARCH 31, 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:

	March 31, 2006	June 30, 2005
2006	\$ -	\$ 2,175,686
2007	22,250,090	2,204,261
2008	-	6,858,863
2009	-	1,691,044
2010 and there after	-	10,605,943
	<b>\$ 22,250,090</b>	<b>\$ 23,535,797</b>

The Company entered into an agreement with the Bank on February 18, 2005 stating that by June 30, 2005, the Company would have an EBITDA (earnings before interest, taxes, depreciation and amortization) ratio of 1.35:1. As at June 30, 2005, September 30, 2005 and December 31, 2005, the Company was not in compliance with this term and condition. The Company did receive waivers from the Bank for the periods listed above. As of March 31, 2006, the Company had an EBITDA ratio of 0.94:1 and was not in compliance with the EBITDA requirement. The Bank has not granted a waiver for this quarter. As such, the Company has disclosed its long-term debt as a current liability.

The Company is in negotiations with its Banker concerning continued financing. On April 3, 2006, the Company received a commitment letter, and on May 17, 2006 the Company received a revised commitment letter. The Company is continuing with the negotiations.

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED MARCH 31, 2006

### 7. Obligations under capital leases

	March 31, 2006		June 30, 2005
Obligations under capital lease	\$ 343,816	\$	614,114
Less: imputed interest	74,031		93,962
	<b>269,785</b>		520,152
Less: current portion	<b>249,053</b>		291,330
	<b>\$ 20,732</b>	\$	228,822

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

	March 31, 2006		June 30, 2005
2006	\$ -	\$	291,330
2007	249,053		214,281
2008	20,732		14,541
	<b>\$ 269,785</b>	\$	520,152

Annualized interest rates range from 3.9% to 7.0%.

### 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.

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED MARCH 31, 2006

**9. Capital stock**

Authorized

Unlimited common shares with no par value.

	<b>March 31, 2006</b>		<b>March 31, 2006</b>
	<b>Number of Shares</b>		<b>Amount</b>
Issued and outstanding as at June 30, 2005	<b>25,203,201</b>	<b>\$</b>	<b>3,889,265</b>
Shares issued in payment of interest on convertible debenture	<b>332,732</b>		<b>119,178</b>
<b>Issued and outstanding as at March 31, 2006</b>	<b>25,535,933</b>	<b>\$</b>	<b>4,008,443</b>

	June 30, 2005		June 30, 2005
	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
<b>Issued and outstanding as at June 30, 2005</b>	<b>25,203,201</b>	<b>\$</b>	<b>3,889,265</b>

(a) Summary of stock options outstanding as at March 31, 2006.

<b>Security type</b>	<b>Number outstanding</b>		<b>Price</b>	<b>Expiry date</b>
Share options	900,000	\$	0.30	April 3, 2006
Share options	130,000	\$	0.30	December 15, 2007

(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.

See note 18.

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED MARCH 31, 2006

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**9. Capital stock (continued)**

(c) As at March 31, 2006, the Company had 900,000 share options available at \$0.30 per share, expiring April 3, 2006. All 900,000 share options lapsed on April 3, 2006.

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

	<b>For the three months ended March 31, 2006</b>	<b>For the nine months ended March 31, 2006</b>	For the three months ended March 31, 2005	For the nine months ended March 31, 2005
Accounts receivable	\$( 1,168,900)	\$( 841,592)	\$ 881,200	\$( 576,878)
Income taxes receivable	-	473,807	454,860	454,860
Prepaid expenses and deposits	( 39,998)	( 53,089)	58,605	55,890
Inventories	( 1,675,840)	( 3,309,765)	( 2,258,149)	( 4,323,817)
Accounts payable and accruals	( 107,573)	2,232,336	( 698,237)	1,634,537
	<b>\$( 2,992,311)</b>	<b>\$( 1,498,303)</b>	<b>\$( 1,561,721)</b>	<b>\$( 2,755,408)</b>



**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED MARCH 31, 2006

**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.

**Interest rate risk**

The company's debt has both fixed and floating interest rates. At March 31, 2006, the fair market value of the term debt and subordinate debt approximates the book value of \$22,250,090 (June 2005: \$23,535,797).

	<b>March 31, 2006</b>	June 30, 2005
<b>Fixed interest rates</b>		
Mortgages	\$ 16,186,526	\$ 17,089,715
Convertible debenture	5,000,000	5,000,000
	<b>21,186,526</b>	22,089,715
<b>Floating interest rates</b>		
Mortgages - floating interest rates	1,063,564	1,446,082
	<b>\$ 22,250,090</b>	\$ 23,535,797
<b>Floating interest rate</b>		
Operating line-of-credit	\$ 2,969,498	\$ 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.

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED MARCH 31, 2006

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**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:

	<b>March 31,</b>		<b>June 30,</b>
	<b>2006</b>		<b>2005</b>
2006	\$ -	\$	18,099
2007	<b>13,830</b>		9,305
2008	<b>6,374</b>		6,374
2009	<b>5,843</b>		5,843
	<b>\$ 26,047</b>	<b>\$</b>	<b>39,621</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.

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED MARCH 31, 2006

### 13. Related party transactions

The company participated in transactions with related parties as follows:

	<b>For the three months ended March 31, 2006</b>	<b>For the nine months ended March 31, 2005</b>	For the three months ended March 31, 2005	For the nine months ended March 31, 2005
Management fees paid to a company with directors in common	\$ 126,000	\$ 378,000	\$ 126,000	\$ 378,000
Directors' fees	16,000	36,500	9,000	15,119
Professional fees paid to companies owned by directors	31,873	78,646	29,018	105,461
Loan repayments made to a company with directors in common	-	-	64,678	69,827
Interest paid to a company with directors in common	123,288	375,342	123,288	374,654
Loan to a company owned with directors in common	-	72,088	-	-
Management fees paid to a company with directors in common	-	-	-	150,000
<i>The company received the following payment from related parties:</i>				
From a company owned by a director	\$ -	\$ 37,500	\$ -	\$ -

The company has the following related party loans payable:

	<b>March 31, 2006</b>	March 31, 2005
Subordinated loan from a company with director's in common	\$ 5,000,000	\$ 5,000,000
Due to a company with director's in common	247,160	327,333

The company has the following related party balance in accounts receivable:

	<b>March 31, 2006</b>	March 31, 2005
Due from companies with director's in common	\$ 247,160	\$ -

(continued on the next page)

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED MARCH 31, 2006

### 13. Related party transactions (continued)

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.

### 14. Interest

	For the three months ended March 31, 2006	For the nine months ended March 31, 2006	For the three months ended March 31, 2005	For the nine months ended March 31, 2005
Interest expense -operating line of credit	\$ 24,605	\$ 50,950	\$ 18,356	\$ 39,021
-term debt	268,022	834,306	285,669	886,244
-convertible debenture	123,288	375,342	123,288	374,654
-capital leases	1,578	20,476	25,256	50,372
-other	838	2,195	452	1,625
	<b>\$ 418,331</b>	<b>\$ 1,283,269</b>	<b>\$ 453,021</b>	<b>\$ 1,351,916</b>

### 15. Future income tax liability

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

	March 31, 2006	June 30, 2005
Opening balance - beginning of period/year	\$ 1,450,042	\$ 2,005,295
Estimated future income tax liability (adjustment on current earnings (losses))	( 78,241)	( 555,253)
Closing balance - end of period/year	<b>\$ 1,371,801</b>	<b>\$ 1,450,042</b>

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED MARCH 31, 2006

**16. Segmented information**

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

	For the three months ended September 30, 2005 Sales	For the three months ended December 31, 2005 Sales	For the three months ended March 31, 2006 Sales	For the nine months ended March 31, 2006 Sales
Canada	\$ 753,510	\$ 5,054,575	\$ 3,250,486	\$ 9,058,571
United States	1,561,940	631,198	1,909,708	4,102,846
Mexico	317,264	-	-	317,264
	<b>\$ 2,632,714</b>	<b>\$ 5,685,773</b>	<b>\$ 5,160,194</b>	<b>\$ 13,478,681</b>

	For the three months ended September 30, 2004 Sales	For the three months ended December 31, 2004 Sales	For the three months ended March 31, 2005 Sales	For the nine months ended March 31, 2005 Sales
Canada	\$ 689,378	\$ 4,749,889	\$ 2,714,300	\$ 8,153,567
United States	2,446,933	438,864	1,993,187	4,878,984
Mexico	275,443	-	75,974	351,417
	<b>\$ 3,411,754</b>	<b>\$ 5,188,753</b>	<b>\$ 4,783,461</b>	<b>\$ 13,383,968</b>

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED MARCH 31, 2006

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**17. Comparative figures**

Certain comparative figures has been reclassified to conform with the financial statement presentation adopted in the current year.

**18. Subsequent events**

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. The options are exercisable for a period of 3 years with one-third vesting immediately, one-third vesting on May 12, 2007, and one-third vesting on May 12, 2008.