

**BEVO AGRO INC.**

**CONSOLIDATED  
FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED  
SEPTEMBER 30, 2006 AND 2005

## **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.  
November 24, 2006

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

	September 30, 2006 (Unaudited)	June 30, 2006 (Audited)	September 30, 2005 (Unaudited)
<b>ASSETS</b>			
<b>Current</b>			
Cash	\$ 94,234	\$ 58,332	\$ 244,856
Accounts receivable	1,962,118	3,219,325	2,008,119
Income taxes receivable	265,584	265,584	-
Inventories	1,705,099	1,510,906	1,968,000
Prepaid expenses and deposits	85,442	110,758	103,687
	<b>4,112,477</b>	<b>5,164,905</b>	<b>4,324,662</b>
Mortgage receivable [Note 17]	721,236	689,167	-
Property, plant and equipment [Note 4]	29,743,337	30,109,385	31,369,103
Deferred costs, net of accumulated amortization [Note 2]	141,481	35,844	39,053
Goodwill [Note 2]	262,747	262,747	262,747
	<b>\$ 34,981,278</b>	<b>\$ 36,262,048</b>	<b>\$ 35,995,565</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Bank indebtedness [Note 5]	\$ 380,906	\$ 1,000,495	\$ 1,196,402
Accounts payable and accruals	1,015,629	1,561,218	1,107,728
Current portion of long term and subordinated debt [Note 6]	796,411	21,720,499	2,264,952
Current portion of obligations under capital lease [Note 7]	215,867	214,281	291,330
	<b>2,408,813</b>	<b>24,496,493</b>	<b>4,860,412</b>
Long-term debt [Note 6, 12 and 13]	21,476,132	-	21,094,364
Obligations under capital lease [Note 7]	-	16,818	141,876
Future income tax liability [Note 15]	1,337,769	1,582,253	1,109,847
Due to a company with directors in common [Notes 8 and 13]	247,160	247,160	247,160
	<b>25,469,874</b>	<b>26,342,724</b>	<b>27,453,659</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock [Note 9]	4,008,443	4,008,443	4,008,443
Contributed surplus	10,168	10,168	-
Retained earnings	5,492,793	5,900,713	4,533,463
	<b>9,511,404</b>	<b>9,919,324</b>	<b>8,541,906</b>
	<b>\$ 34,981,278</b>	<b>\$ 36,262,048</b>	<b>\$ 35,995,565</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 SEPTEMBER 30, (Canadian \$)

	For the three months ended September 30, 2006	For the three months ended September 30, 2005
<b>Sales</b>	<b>\$ 2,873,509</b>	<b>\$ 2,632,714</b>
<b>Cost of sales</b>	<b>1,942,217</b>	<b>2,055,814</b>
<b>Gross margin</b>	<b>931,292</b>	<b>576,900</b>
<b>Expenses</b>		
General operating	461,086	346,186
Administrative fees, wages and benefits	266,662	208,160
Amortization	456,197	485,278
Interest [Note 14]	411,221	439,592
	<b>1,595,166</b>	<b>1,479,216</b>
<b>Earnings (loss) from operations</b>	<b>(663,874)</b>	<b>(902,316)</b>
Gain on disposal of assets	11,470	-
<b>Income (loss) before income taxes</b>	<b>(652,404)</b>	<b>(902,316)</b>
Provision for (recovery of) income taxes		
Future	(244,484)	(340,195)
<b>Net income (loss) for the period</b>	<b>(407,920)</b>	<b>(562,121)</b>
<b>Retained earnings, beginning of the period</b>	<b>5,900,713</b>	<b>5,095,584</b>
<b>Retained earnings, end of the period</b>	<b>\$ 5,492,793</b>	<b>\$ 4,533,463</b>
Basic earnings (loss) per share	\$ (0.02)	\$ (0.02)
Fully diluted earnings (loss) per share	\$ (0.02)	\$ (0.02)

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See accompanying Notes to the Financial Statements

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

	For the three months ended September 30, 2006	For the three months ended September 30, 2005
<b>Cash flows from operating activities</b>		
Net earnings (loss) for the period	\$( 407,920)	\$( 562,121)
Items not involving cash		
Amortization	456,197	485,278
Future income taxes	( 244,484)	( 340,195)
Non-cash interest	-	119,178
Loss (gain) on disposal of assets	( 11,470)	-
Changes in non-cash working capital <i>[Note 10]</i>	542,741	1,151,159
	<b>335,064</b>	<b>853,299</b>
<b>Cash flows from investing activities</b>		
Acquisition of equipment	( 79,219)	( 506,191)
Proceeds on disposal of equipment	15,900	-
Mortgage receivable	( 32,069)	-
Deferred costs	( 120,998)	-
	<b>( 216,386)</b>	<b>( 506,191)</b>
<b>Cash flows from financing activities</b>		
Bank indebtedness	( 619,589)	( 196,796)
Advances under term debt	17,000,000	-
Long-term debt repayments	( 16,447,955)	( 176,481)
Payments of obligations under capital lease	( 15,232)	( 86,946)
	<b>( 82,776)</b>	<b>( 460,223)</b>
<b>Increase (decrease) in cash</b>	<b>35,902</b>	<b>( 113,115)</b>
Cash, beginning of period	58,332	357,971
<b>Cash, end of period</b>	<b>\$ 94,234</b>	<b>\$ 244,856</b>
<b>Supplementary information:</b>		
Interest paid in cash	\$ 411,221	\$ 320,414
Interest paid in shares	-	119,178
	<b>\$ 411,221</b>	<b>\$ 439,592</b>

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

# **BEVO AGRO INC.**

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

### **PERIODS ENDED SEPTEMBER 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 by 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.

##### **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 September 30, 2006, and the results of operations and changes in the financial position for the three months ended September 30, 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, 2006.

##### **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 SEPTEMBER 30, 2006

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

**Cash**

Cash includes 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 SEPTEMBER 30, 2006

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

**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.

**Deferred costs**

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

	September 30, 2006	June 30, 2006
Deferred financing fees	\$ 141,481	\$ 35,844

**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 SEPTEMBER 30, 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 SEPTEMBER 30, 2006

### 4. Property, plant and equipment

	Cost	Accumulated Amortization	Net book value September 30, 2006
Land	\$ 2,406,212	\$ -	\$ 2,406,212
Land improvements	629,682	149,664	480,018
Buildings	904,026	176,244	727,782
Equipment under capital lease	1,516,989	1,233,861	283,128
Greenhouse, shade and packing equipment	28,459,600	7,205,392	21,254,208
Machinery and equipment	6,742,852	2,567,673	4,175,179
Capital projects in progress	416,810	-	416,810
	<b>\$ 41,076,171</b>	<b>\$ 11,332,834</b>	<b>\$ 29,743,337</b>

	Cost	Accumulated Amortization	Net book value June 30, 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>

### 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 SEPTEMBER 30, 2006

### 6. Long term and subordinated debt

	September 30, 2006	June 30, 2006
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
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
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
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
Bank of Nova Scotia loan, maturing in September 2006, carries interest at 6.00% per annum, repayable with blended monthly payments of \$14,100.	-	1,140,244
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
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
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
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
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
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
<b>Bank of Nova Scotia term-debt</b>	<b>\$ -</b>	<b>\$ 16,365,833</b>

(continued on the next page)

UNAUDITED - SEE NOTICE TO READER

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED SEPTEMBER 30, 2006

### 6. Long term and subordinated debt (continued)

	September 30, 2006	June 30, 2006
Bank of Nova Scotia term debt	\$ -	\$ 16,365,833
<b>Bank of Montreal long term debt</b>		
Bank of Montreal term loan, maturing September 2011, carries interest of 6.07% per annum repayable with blended monthly payments of \$76,288.	9,000,000	-
Bank of Montreal term loan, maturing September 2009, carries interest of 6.00% per annum repayable with blended monthly payments \$67,509.	8,000,000	-
	<b>17,000,000</b>	16,365,833
<b>De Lage Landen loans</b>		
De Lage Landen loan, maturing September, 2009, carries interest of 7.75% repayable with blended monthly payments of \$7,753.	235,998	307,704
De Lage Landen loan, maturing September, 2009, carries interest of 7.75% repayable with blended monthly payments of \$1,141.	36,545	46,962
	<b>17,272,543</b>	16,720,499
<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 in 2006 and \$0.73 in 2007.	5,000,000	5,000,000
	<b>22,272,543</b>	21,720,499
Less: current portion of term debt	( 796,411)	(21,720,499)
<b>Total long term debt</b>	<b>\$ 21,476,132</b>	\$ -

The bank loans are secured by a general security agreement, a mortgage on the plant and property, a charge on inventories, a general assignment of book debts, and assignment of property insurance. The De Lage Landen loan is secured by the computer hardware purchased.

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED SEPTEMBER 30, 2006

### 6. Long term and subordinated debt (continued)

During the quarter, the company replaced the credit facilities from the Bank of Nova Scotia with new credit facilities from BMO Bank of Montreal totaling \$25 million. This includes \$3 million revolving line of credit, and a \$17 million term loan facility amortized over 15 years. 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 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.

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

	September 30, 2006	June 30, 2006
2007	\$ 796,411	\$ 21,720,499
2008	1,074,333	-
2009	1,126,896	-
2010	1,117,252	-
2011 and there after	18,157,651	-
	<b>\$ 22,272,543</b>	<b>\$ 21,720,499</b>

**BEVO AGRO INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

PERIODS ENDED SEPTEMBER 30, 2006

**7. Obligations under capital lease**

	September 30, 2006	June 30, 2006
Obligations under capital lease	\$ 215,867	\$ 233,199
Less: imputed interest	-	2,100
	<b>215,867</b>	231,099
Less: current portion	<b>215,867</b>	214,281
	<b>\$ -</b>	<b>\$ 16,818</b>

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

	September 30, 2006	June 30, 2006
2007	\$ 215,867	\$ 214,281
2008	-	14,541
	<b>\$ 215,867</b>	<b>\$ 228,822</b>

Annualized interest rates range from 3.9% to 7.0%.

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED SEPTEMBER 30, 2006

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### 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.

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	September 30, 2006 Number of Shares	September 30, 2006 Amount
Issued and outstanding as at September 30, 2006	25,535,933	\$ 4,008,443

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	June 30, 2006 Number of Shares	June 30, 2006 Amount
Issued and outstanding as at June 30, 2005	25,203,201	\$ 3,889,265
Issue of shares 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

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**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED SEPTEMBER 30, 2006

**9. Capital stock (continued)**

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

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

(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 will expire on May 12, 2009.

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

	<b>For the three months ended September 30, 2006</b>	<b>For the three months ended September 30, 2005</b>
Accounts receivable	\$ 1,257,207	\$ 2,308,596
Income taxes receivable	-	473,807
Prepaid expenses and deposits	25,316	( 59,398)
Inventories	( 194,193)	17,748
Accounts payable and accruals	( 545,589)	( 1,589,594)
	<b>\$ 542,741</b>	<b>\$ 1,151,159</b>



**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED SEPTEMBER 30, 2006

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**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 \$22,354,666 (June 2005: \$23,535,797).

	September 30, 2006	June 30, 2006
<b>Fixed interest rates</b>		
Loans	\$ 17,354,666	\$ 15,429,839
Convertible debenture	5,000,000	5,000,000
	<b>22,354,666</b>	20,429,839
<b>Floating interest rates</b>		
Mortgages - floating interest rates	-	1,290,660
	<b>\$ 22,354,666</b>	\$ 21,720,499
<b>Floating interest rate</b>		
Operating line-of-credit	\$ 380,906	\$ 1,000,495

**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 SEPTEMBER 30, 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:

	September 30, 2006	June 30, 2006
2007	\$ 6,979	\$ 9,305
2008	6,374	6,374
2009	5,843	5,843
	<b>\$ 19,196</b>	<b>\$ 21,522</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 SEPTEMBER 30, 2006

**13. Related party transactions**

The company participated in transactions with related parties as follows:

	For the three months ended September 30, 2006	For the three months ended September 30, 2005
Management fees paid to a company with directors in common	\$ 126,000	\$ 126,000
Directors fees	20,250	9,750
Professional fees paid to companies owned by directors	24,500	37,055
Interest paid to a company with directors in common	126,027	126,027
Loan to a company owned with directors in common	-	72,088
<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:

	September 30, 2006	June 30, 2006
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

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

	September 30, 2006	June 30, 2006
Due from companies with directors in common	\$ 247,160	\$ 247,160

(continued on the next page)

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED SEPTEMBER 30, 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 September 30, 2006	For the three months ended September 30, 2005
Interest expense -operating line of credit	\$ 20,400	\$ 12,357
-term debt	258,269	281,736
-term debt - De Lage Landen	5,542	4,085
-convertible debenture	126,027	126,027
-capital leases	963	14,030
-other	20	1,357
	<b>\$ 411,221</b>	<b>\$ 439,592</b>

**15. Future income tax liability**

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

	September 30, 2006	June 30, 2006
Opening balance - beginning of period/year	\$ 1,582,253	\$ 1,450,042
Estimated future income tax liability (adjustment on current earnings (losses))	( 244,484)	132,211
Closing balance - end of period/year	<b>\$ 1,337,769</b>	<b>\$ 1,582,253</b>

**BEVO AGRO INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
PERIODS ENDED SEPTEMBER 30, 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, 2006 Sales	For the three months ended September 30, 2006 Property, plant and equipment
Canada	\$ 805,556	\$ 29,743,337
United States	1,606,902	-
Mexico	461,001	-
	<b>\$ 2,873,459</b>	<b>\$ 29,743,337</b>

**17. Mortgage receivable**

A customer defaulted on their trade accounts receivable. The company has obtained security for the trade accounts receivable by obtaining a mortgage on the property owned by the customer.

	September 30, 2006
Mortgage receivable	\$ 689,167
Interest at 18%	32,069
Total mortgage receivable	<b>\$ 721,236</b>