

**BEVO AGRO INC.**  
**CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

## **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.  
February 25, 2009

**BEVO AGRO INC.**  
**CONSOLIDATED BALANCE SHEET**  
DECEMBER 31 (Canadian \$)

	December 31, 2008 (Unaudited)	June 30, 2008 (Audited)	December 31, 2007 (Unaudited)
<b>ASSETS</b> [Note 8]			
<b>Current</b>			
Cash	\$ 329,420	\$ 567,634	\$ 192,952
Accounts receivable [Notes 7 and 8]	2,632,955	3,427,835	3,171,249
Income taxes receivable	182,898	182,898	94,698
Inventories [Note 3]	3,889,940	2,203,653	4,338,307
Prepaid expenses and deposits	200,941	100,478	243,607
	<b>7,236,154</b>	<b>6,482,498</b>	<b>8,040,813</b>
<b>Restricted cash</b>	-	1,000,000	-
<b>Mortgage receivable</b>	-	-	615,985
<b>Property, plant and equipment</b> [Note 4]	27,346,132	27,858,569	28,349,476
<b>Deferred costs</b> [Note 5]	480,327	536,836	681,739
<b>Goodwill and intangible assets</b> [Note 6]	473,997	473,997	642,997
	<b>\$ 35,536,610</b>	<b>\$ 36,351,900</b>	<b>\$ 38,331,010</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Bank indebtedness [Note 7]	\$ -	\$ -	\$ 2,286,656
Accounts payable and accruals	2,610,111	1,613,555	3,749,667
Current portion of long-term debt [Note 8]	1,449,328	2,153,926	5,985,899
Current portion of obligations under capital leases [Note 9]	120,869	116,448	89,684
	<b>4,180,308</b>	<b>3,883,929</b>	<b>12,111,906</b>
<b>Long-term debt</b> [Note 8]	22,084,739	22,021,959	15,428,605
<b>Obligations under capital leases</b> [Note 9]	112,060	173,593	152,054
<b>Future income tax liability</b> [Note 17]	813,208	1,220,367	1,629,702
	<b>27,190,315</b>	<b>27,299,848</b>	<b>29,322,267</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock [Note 10]	4,008,443	4,008,443	4,008,443
Contributed surplus [Note 10 [d]]	66,083	66,083	35,583
Retained earnings	4,271,769	4,977,526	4,964,717
	<b>8,346,295</b>	<b>9,052,052</b>	<b>9,008,743</b>
	<b>\$ 35,536,610</b>	<b>\$ 36,351,900</b>	<b>\$ 38,331,010</b>

**Commitments** [Note 13]

**On behalf of the Board:**

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

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

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See accompanying Notes to the Financial Statements

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

	For the three months ended December 31, 2008	For the six months ended December 31, 2008	For the three months ended December 31, 2007	For the six months ended December 31, 2007
<b>Sales</b>	\$ 3,768,651	\$ 5,072,246	\$ 4,706,799	\$ 6,345,012
<b>Cost of sales</b>	2,541,429	3,660,007	2,899,256	4,434,860
<b>Gross margin</b>	1,227,222	1,412,239	1,807,543	1,910,152
<b>Expenses</b>				
General operating	253,176	505,747	407,377	690,413
Administrative fees, wages and benefits	264,031	518,110	296,330	563,637
Amortization [Note 15]	378,797	755,538	376,465	763,507
Interest [Note 16]	283,381	627,235	405,284	804,021
Provision for bad debts	36,433	48,854	46,482	53,844
	1,215,818	2,455,484	1,531,938	2,875,422
<b>Earnings (loss) before income taxes</b>	11,404	(1,043,245)	275,605	(965,270)
Provision for (recovery of) income taxes		-		-
Future	-	(337,488)	88,200	(308,880)
<b>Net earnings (loss) and comprehensive income (loss) for the period</b>	11,404	(705,757)	187,405	(656,390)
<b>Retained earnings, beginning of the period</b>	4,260,365	4,977,526	4,777,312	5,621,107
<b>Retained earnings, end of the period</b>	\$ 4,271,769	\$ 4,271,769	\$ 4,964,717	\$ 4,964,717
Basic earnings (loss) per share	\$ 0.00	\$ (0.03)	\$ 0.01	\$ (0.03)
Diluted earnings (loss) per share	\$ 0.00	\$ (0.03)	\$ 0.01	\$ (0.03)
Weighted average number of common shares outstanding	25,535,933	25,535,933	25,535,933	25,535,933

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# BEVO AGRO INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

PERIODS ENDED DECEMBER 31 (Canadian \$)

	For the three months ended December 31, 2008	For the six months ended December 31, 2008	For the three months ended December 31, 2007	For the six months ended December 31, 2007
<b>Cash flows from operating activities</b>				
Net earnings (loss) for the period	\$ 11,404	\$ ( 705,757)	\$ 187,405	\$ ( 656,390)
Items not involving cash				
Amortization	378,797	755,538	372,145	759,187
Amortization of deferred costs	28,254	56,509	-	-
Future income taxes	( 69,671)	( 406,751)	88,200	( 397,080)
Changes in non-cash working capital [Note 11]	( 625,708)	4,686	( 542,472)	( 835,112)
	( 276,924)	( 295,775)	105,278	( 1,129,395)
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	( 112,945)	( 243,103)	( 29,892)	( 126,277)
Mortgage receivable	-	-	( 1,977)	40,547
Deferred costs	-	-	4,320	( 78,280)
	( 112,945)	( 243,103)	( 27,549)	( 164,010)
<b>Cash flows from financing activities</b>				
Bank indebtedness	( 124,845)	-	496,867	2,248,990
Advances under term debt	1,000,000	1,000,000	-	-
Advance of restricted cash	1,000,000	1,000,000	-	-
Long-term debt repayments	( 1,287,229)	( 1,643,401)	( 400,754)	( 734,189)
Repayments of obligations under capital lease	( 28,846)	( 57,112)	( 21,473)	( 62,516)
	559,080	300,664	74,640	1,452,285
<b>Increase (decrease) in cash</b>	<b>169,211</b>	<b>( 238,214)</b>	<b>152,369</b>	<b>158,880</b>
Cash, beginning of period	160,209	567,634	40,583	34,072
<b>Cash, end of period</b>	<b>\$ 329,420</b>	<b>\$ 329,420</b>	<b>\$ 192,952</b>	<b>\$ 192,952</b>
<b>Supplementary information:</b>				
Interest paid	\$ 283,381	\$ 627,235	405,284	\$ 804,021

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# **BEVO AGRO INC.**

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

PERIODS ENDED DECEMBER 31

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### **1. Organization**

Bevo Agro Inc. (the “Company”) was incorporated July 9, 1985, under the Company Act of British Columbia, which has been replaced with the Business Corporations Act (British Columbia). The Company’s common shares are traded on the TSX Venture Exchange under the symbol “BVO”.

The Company operates 34 acres of propagation greenhouse facilities on 98 acres of land in Langley, BC. 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. These products are sold to established greenhouse growers and nurseries throughout North America. The Company also produces cucumbers which are marketed and sold through a licensed marketing agency.

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

#### **Consolidation**

The consolidated financial statements include the accounts of the company and its wholly-owned integrated subsidiary, Bevo Farms Ltd. 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 December 31, 2008, and the results of operations and changes in the financial position for the three months ended December 31, 2008, 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, 2008.

#### **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 revenues and expenses during the reporting period. Significant areas requiring the use of estimates include the determination of rates for amortization, valuation of deferred development costs, goodwill and intangibles, mortgage receivable, balances of accruals, the assumptions used in the calculation of stock-based compensation expense and the determination of future income tax liability. While management believes the estimates are reasonable, actual results could differ from those estimates and may impact future results of operations and cash flows.

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31

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### 2. Significant accounting policies (Continued)

#### 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 year. Foreign exchange gains and losses are included in operations.

#### Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes materials, labour and direct overhead costs.

#### Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

#### Revenue recognition

Revenue is recognized using the completed contract method of accounting when the propagation process is completed and the products are shipped from the Company's premises.

#### 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:

Land improvements	5%
Buildings	2.5% - 5%
Greenhouse, shade and packaging equipment	5%
Machinery and equipment	10 - 30%
Equipment under capital lease	10 - 30%

# **BEVO AGRO INC.**

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

PERIODS ENDED DECEMBER 31

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

#### **Deferred costs**

Development costs are expensed unless, in management's view, they meet specific criteria related to technical, market and financial feasibility, in which case they are deferred and amortized. Amortization is then calculated on a straight-line basis over the expected period of recovery from related future revenues. These costs are reviewed on an annual basis, and if there is found to be an impairment in value, any unamortized balance will be written off as a charge to operations.

#### **Goodwill**

Goodwill is recorded at cost less any reduction for impairment. Goodwill is tested for impairment on an annual basis or when events occur that may indicate impairment.

#### **Intangible assets**

Intangible assets are amortized over their estimated useful lives, unless the life is determined to be indefinite, in which case no amortization is taken. Intangible assets are tested for impairment on an annual basis or when events occur that may indicate impairment.

#### **Earnings (loss) per common share**

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings per share. Basic and diluted loss per share are the same for the years presented as the effects of outstanding stock options are anti-dilutive.

#### **Stock-based compensation**

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.



# **BEVO AGRO INC.**

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

PERIODS ENDED DECEMBER 31

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

#### **Leases**

Leases meeting certain criteria are accounted for as capital leases. The imputed interest is charged against operations. If the lease contains a term that allows ownership to pass to the Company, or there is a bargain purchase option, the capitalized value is amortized over the estimated useful life of the related asset. Otherwise, the capitalized value is amortized over the lesser of the lease term and its estimated useful life. All other leases are accounted for as operating leases.

#### **Financial instruments**

Financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method.

#### **Comprehensive income (loss)**

Comprehensive income (loss) is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists of gains and losses affecting shareholders' equity that, under generally accepted accounting principles, are excluded from net income (loss).

The Company has no items of other comprehensive income (loss) in any period presented. Therefore, net loss as presented in the Company's statement of operations equals comprehensive loss.

# **BEVO AGRO INC.**

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

PERIODS ENDED DECEMBER 31

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

#### **Capital Disclosures**

The Company adopts CICA Handbook Section 1535, “Capital Disclosures”, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity’s objectives, policies and procedures for managing capital.

#### **Going-concern**

The Company adopts CICA Handbook Section 1400, “General Standards of Financial Statement Presentation”, which requires management to make an assessment of a company’s ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going-concern.

#### **Future accounting changes**

The following change will apply for the Company to interim and annual financial statements, commencing July 1, 2009:

(a) **Goodwill and Intangible Assets**

Section 3064 replaces Handbook Section 3062, “Goodwill and Intangible Assets”, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. Concurrent with the introduction of this standard, the CICA withdrew EIC27, Revenues and Expenses, during the pre-operating period.

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31

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### 2. Significant accounting policies (continued)

The following change will apply for the Company to interim and annual financial statements, commencing July 1, 2010:

(a) International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### 3. Inventories

	<b>December 31, 2008</b>		June 30, 2008		December 31, 2007
Finished goods	\$ 2,319,366	\$	1,572,069	\$	1,946,025
Work-in-process	1,570,574		631,584		2,392,282
	<b>\$ 3,889,940</b>	\$	2,203,653	\$	4,338,307

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

PERIODS ENDED DECEMBER 31

**4. Property, plant and equipment**

	Cost	Accumulated Amortization	Net book value December 31, 2008
Land	\$ 2,406,212	\$ -	\$ 2,406,212
Land improvements	798,875	206,644	592,231
Buildings	904,026	244,109	659,917
Equipment under capital lease	428,321	125,395	302,926
Greenhouse, shade and packing equipment	28,624,098	9,527,532	19,096,566
Machinery and equipment	9,092,289	4,804,009	4,288,280
	<b>\$ 42,253,821</b>	<b>\$ 14,907,688</b>	<b>\$ 27,346,132</b>

	Cost	Accumulated Amortization	Net book value June 30, 2008
Land	\$ 2,406,212	\$ -	\$ 2,406,212
Land improvements	679,856	192,163	487,693
Buildings	904,026	229,864	674,162
Equipment under capital lease	428,321	94,877	333,444
Greenhouse, shade and packing equipment	28,606,425	9,039,167	19,567,258
Machinery and equipment	8,985,878	4,596,078	4,389,800
	<b>\$ 42,010,718</b>	<b>\$ 14,152,149</b>	<b>\$ 27,858,569</b>

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## BEVO AGRO INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31

#### 5. Deferred costs

	Cost	Accumulated amortization	Net Book Value December 31, 2008	Net Book Value June 30, 2008
Deferred development costs	\$ 565,090	\$ 84,763	\$ 480,327	\$ 536,836
	\$ 565,090	\$ 84,763	\$ 480,327	\$ 536,836

Deferred development costs consists of costs incurred in the development of new product lines. These costs are amortized on a straight-line basis over five years and charged to cost of sales.

#### 6. Goodwill and intangible assets

(a) Goodwill

	December 31, 2008	June 30, 2008
Goodwill	\$ 262,747	\$ 262,747

(b) Intangible assets

	December 31, 2008	June 30, 2008
Non-competition agreement, cost	\$ 507,000	\$ 507,000
Accumulated amortization	(295,750)	(295,750)
	\$ 211,250	\$ 211,250
Total Goodwill and intangible assets	\$ 473,997	\$ 473,997

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 non-competition agreement with Rainbow Greenhouses Ltd. provides that Rainbow Greenhouses Ltd. will not supply a specified customer for ten years ending in 2017. The outlay pursuant to the agreement will be amortized based on sales to that customer over approximately three years ending in 2010.

#### 7. Bank indebtedness

The Company has a revolving line of credit with the Bank of Montreal in the amount of \$1,000,000. This line of credit bears interest at prime plus 2%, is due on demand, and is secured by a first charge on accounts receivable.

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## BEVO AGRO INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31

#### 8. Long-term debt

	December 31, 2008	June 30, 2008
FCC term loan, maturing June 1, 2013, carries interest at FCC's variable rate minus 0.5%, repayable with blended monthly payments of \$79,891	\$ 10,795,068	\$ 11,000,000
FCC term loan, maturing June 1, 2013, carries interest at FCC's variable rate minus 0.5%, repayable with blended monthly payments of \$93,838	10,710,537	11,000,000
FCC advance loan, maturing June 1, 2013, carries interest at FCC's variable rate, payable with monthly payments of interest only	2,000,000	1,000,000
Deferred borrowing costs	(109,380)	(111,758)
	<b>23,396,225</b>	<b>22,888,242</b>
De Lage Landen loan, maturing September 2009, carries interest of 7.75% per annum, repayable with blended monthly payments of \$7,753	52,898	96,381
De Lage Landen loan, maturing September 2009, carries interest of 7.75% per annum, repayable with blended monthly payments of \$1,141	9,944	16,262
	<b>62,842</b>	<b>112,643</b>
Non-competition agreement, non-interest bearing, unsecured		
Payment July 1, 2008	-	100,000
Payment due July 1, 2009	75,000	75,000
	<b>75,000</b>	<b>175,000</b>
Banyan Capital Partners Limited Partnership advance loan, maturing June 30, 2009, carries interest of 12% per annum.	-	1,000,000
	-	1,000,000
	<b>23,534,067</b>	<b>24,175,885</b>
Less: current portion of term debt	<b>(1,449,328)</b>	<b>(2,153,926)</b>
<b>Total term debt</b>	<b>\$ 22,084,739</b>	<b>\$ 22,021,959</b>

The Farm Credit Canada term loans are secured by a general security agreement, first mortgages on the Company land and buildings, assignments of insurance and a limited guarantee from a related company. The De Lage Landen loans are secured by computer hardware and software.

The deferred borrowing costs are amortized as the principal on the loan is repaid and are included as interest on term debt (Note 16).

## BEVO AGRO INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31

#### 8. Long-term debt (continued)

Principal repayments required to be made in each of the next five years are as follows:

	December 31, 2008	June 30, 2008
2009	\$ 1,449,328	\$ 2,153,926
2010	1,303,026	1,089,668
2011	1,355,691	1,057,561
2012	1,409,464	1,111,777
2013	18,125,938	18,874,711
Less: deferred borrowing costs	(109,380)	(111,758)
	\$ 23,534,067	\$ 24,175,885

#### 9. Obligations under capital leases

	December 31, 2008	June 30, 2008
Obligations under capital leases	\$ 253,103	\$ 320,488
Less: imputed interest	20,174	30,447
	232,929	290,041
Less: current portion	120,869	116,448
	\$ 112,060	\$ 173,593

Future minimum lease payments for each of the next four years are as follows:

	December 31, 2008	June 30, 2008
2009	\$ 120,869	\$ 116,448
2010	82,665	130,456
2011	29,395	28,111
2012	-	15,026
	\$ 232,929	\$ 290,041

Annualized interest rates range from 7.08% to 8.80%.

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31

### 10. Capital stock

**Authorized:**

Unlimited common shares without par value.

**Issued:**

	Number of Shares	Amount
Issued and outstanding as at December 31, 2008 and June 30, 2008	25,535,933	\$ 4,008,443

(a) Summary of stock options outstanding and exercisable as at December 31, 2008:

Security type	Number outstanding	Price	Expiry date
Stock options	500,000	\$ 0.28	May 12, 2009

(b) The Company adopted a stock option plan in 2004, 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.

(c) On May 12, 2006, the Company granted stock options under its 2004 stock option plan to directors and officers for the purchase of 500,000 common shares at a price of \$0.28 per share. One-third of these options vested as of May 12, 2006, one-third vested May 12, 2007 and one-third vested on May 12, 2008. The options will expire on May 12, 2009.

(d) Contributed surplus

Contributed surplus is comprised of the following:

Balance, June 30, 2006	\$ 10,168
Stock - based compensation for the year	25,415
Balance, June 30, 2007	35,583
Stock - based compensation for the year	30,500
Balance, June 30, 2008	66,083
Stock - based compensation for the first six months	-
Balance, December 31, 2008	\$ 66,083



# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31

### 11. Changes in non-cash working capital

	<b>For the three months ended December 31, 2008</b>	<b>For the six months ended December 31, 2008</b>	For the three months ended December 31, 2007	For the six months ended December 31, 2007
Accounts receivable	\$ ( 1,240,847) \$	794,880	\$ ( 1,426,466)	\$ ( 493,907)
Income taxes receivable				88,200
Prepaid expenses and deposits	( 29,287)	( 100,463)	( 122,797)	( 193,642)
Inventories	( 1,105,464)	( 1,686,287)	( 1,678,382)	( 1,508,002)
Accounts payable and accruals	1,749,890	996,556	2,685,173	1,272,239
	<b>\$ ( 625,708) \$</b>	<b>4,686</b>	<b>\$ ( 542,472)</b>	<b>\$ ( 835,112)</b>

### 12. Financial instruments and risk management

The Company has designated its cash and bank indebtedness as held-for-trading; accounts receivable as loans and receivables; and accounts payable and accruals and long-term debt as other liabilities.

#### Fair value

The carrying values of cash, accounts receivable, bank indebtedness, and accounts payable and accruals approximate their fair values because of the short-term maturity of these financial instruments.

The carrying value of long-term debt approximates its fair value upon initial recognition and subsequent to that date it has been amortized using the effective interest rate method. At December 31, 2008, its carrying value approximates its fair value.

#### Currency risk

The Company is exposed to foreign currency fluctuations to the extent revenues earned and expenditures incurred by the Company are not denominated in Canadian dollars. From time to time the Company enters into foreign currency contracts to manage foreign currency risk.

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31

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### 12. Financial instruments and risk management (continued)

#### Interest rate risk

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's long-term debt is principally at variable interest rates and, therefore, the Company is exposed to interest rate cash flow risk during the term of the debt. The Company is not exposed to significant interest rate price risk due to the short-term maturity of its monetary assets and liabilities.

#### Credit risk

The Company is exposed to credit risk with respect to its cash and accounts receivable. Cash is placed with a major Canadian financial institution. Accounts receivable are from geographically dispersed customers and a substantial portion are from customers with whom long-term business relationships have been established.

### 13. Commitments

#### Operating leases

The Company has entered into an automobile operating lease. The future minimum lease payments for the next year is as follows:

	<b>December 31, 2008</b>	June 30, 2008
2009	<b>\$ 2,447</b>	\$ 5,843
	<b>\$ 2,447</b>	\$ 5,843

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31

### 14. Related party transactions

The company participated in transactions with related parties as follows:

	<b>For the three months ended December 31, 2008</b>	<b>For the six months ended December 31, 2008</b>	For the three months ended December 31, 2007	For the six months ended December 31, 2007
Management fees paid to a company with directors in common	\$ 126,000	\$ 252,000	\$ 126,000	\$ 252,000
Directors fees	20,250	40,500	28,500	49,500
Professional fees paid to companies owned by directors	4,548	9,208	24,818	45,694
Interest paid to a company with directors in common	23,013	53,260	126,027	252,055

The president and vice-president provide management services to the Company through their management company and have provided a guarantee against term loans (Note 8). The management fees are approved annually by the Board of Directors. Two directors provide additional professional services to the Company through their professional corporations.

All of the above transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 15. Amortization

	<b>For the three months ended December 31, 2008</b>	For the three months ended December 31, 2007
Amortization -property, plant and equipment	\$ 378,797	\$ 376,465
	\$ 378,797	\$ 376,465

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31

### 16. Interest

		<b>For the three months ended December 31, 2008</b>	<b>For the six months ended December 31, 2008</b>	For the three months ended December 31, 2007	For the six months ended December 31, 2007
Interest expense	-operating line of credit	\$ 8,150	\$ 8,376	\$ 29,769	\$ 48,823
	-term debt	269,805	606,194	244,971	493,683
	-convertible debenture	-	-	126,027	252,055
	-capital leases	4,854	10,287	4,517	9,460
	-deferred financing costs	1,201	2,378	4,517	9,460
		<b>\$ 283,381</b>	<b>\$ 627,235</b>	<b>\$ 405,284</b>	<b>\$ 804,021</b>

### 17. Income taxes

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

	<b>December 31, 2008</b>	June 30, 2008
Opening balance - beginning of period/year	\$ 1,220,367	\$ 2,026,782
Estimated future income tax liability (adjustment on current earnings (losses))	( 337,488)	( 806,415)
Closing balance - end of period/year	<b>\$ 813,208</b>	<b>\$ 1,220,367</b>

# BEVO AGRO INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31

### 18. Segmented information

The company operates in the following industry segment: propagation and production of greenhouse products. Geographic information is as follows:

	For the three months ended December 31, 2008 Assets	For the three months ended December 31, 2008 Sales	For the three months ended December 31, 2008 Property, plant and equipment
Canada	\$ 35,536,610	\$ 2,240,431	\$ 27,346,132
United States	-	1,528,220	-
Mexico	-	-	-
	<b>\$ 35,536,610</b>	<b>\$ 3,768,651</b>	<b>\$ 27,346,132</b>

	For the three months ended December 31, 2007 Assets	For the three months ended December 31, 2007 Sales	For the three months ended December 31, 2007 Property, plant and equipment
Canada	\$ 38,331,010	\$ 2,898,981	\$ 28,349,476
United States	-	1,795,316	-
Mexico	-	12,502	-
	<b>\$ 38,331,010</b>	<b>\$ 4,706,799</b>	<b>\$ 28,349,476</b>