BEVO AGRO INC.

CONSOLIDATED
FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2008 AND 2007

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Bevo Agro Inc. are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls through an audit committee, which is comprised entirely of non-management directors. The Audit Committee reviews the results of the audit and the annual financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements have been audited by Smythe Ratcliffe LLP, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the financial statements.

"Jack Benne"

Jack Benne
President

Vancouver, British Columbia
August 22, 2008

AUDITORS' REPORT

TO THE SHAREHOLDERS OF BEVO AGRO INC.

We have audited the consolidated balance sheets of Bevo Agro Inc. as at June 30, 2008 and 2007 and the consolidated statements of operations and retained earnings and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and 2007 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
August 22, 2008

7th Floor, Marine Building
355 Burrard Street, Vancouver, BC
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BEVO AGRO INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30

		2008		2007
ASSETS *[Note 8]*				
Current				
Cash	**$**	**567,634**	$	34,072
Accounts receivable *[Notes 7 and 8]*		**3,427,835**		2,677,342
Income taxes receivable *[Note 8]*		**182,898**		182,898
Inventories *[Note 3]*		**2,203,653**		2,830,305
Prepaid expenses and deposits		**100,478**		49,965
		6,482,498		5,774,582
Restricted cash *[Note 7]*		**1,000,000**		-
Mortgage receivable *[Note 19]*		-		656,532
Property, plant and equipment *[Notes 4 and 8]*		**27,858,569**		28,982,386
Deferred costs *[Note 5]*		**536,836**		603,459
Goodwill *[Note 6]*		**262,747**		262,747
Intangible assets *[Note 6]*		**211,250**		380,250
	$	**36,351,900**	$	36,659,956
LIABILITIES				
Current				
Bank indebtedness *[Note 7]*	**$**	**-**	$	37,666
Accounts payable and accruals		**1,613,555**		2,477,428
Current portion of long-term debt *[Note 8]*		**2,153,926**		6,109,103
Current portion of obligations under capital leases *[Note 9]*		**116,448**		106,565
		3,883,929		8,730,762
Long-term debt *[Note 8]*		**22,021,959**		16,039,590
Obligations under capital leases *[Note 9]*		**173,593**		197,689
Future income tax liability *[Note 17]*		**1,220,367**		2,026,782
		27,299,848		26,994,823
SHAREHOLDERS' EQUITY				
Capital stock *[Note 10]*		**4,008,443**		4,008,443
Contributed surplus *[Note 10 [e]]*		**66,083**		35,583
Retained earnings		**4,977,526**		5,621,107
		9,052,052		9,665,133
	$	**36,351,900**	$	36,659,956

Commitments *[Note 13]*

On behalf of the Board:

"Jack Benne"
Jack Benne, Director

"Donald Fairholm"
Donald Fairholm, Director

See accompanying Notes to the Consolidated Financial Statements

BEVO AGRO INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
YEARS ENDED JUNE 30

	2008	2007
		[Note 20]
Sales	$ 19,763,458	$ 19,795,142
Cost of sales	14,310,967	13,177,470
Gross margin	5,452,491	6,617,672
Expenses		
General operating	1,433,495	1,562,712
Administrative fees, wages and benefits	1,143,705	1,192,093
Amortization *[Note 15]*	1,743,009	1,838,771
Interest *[Note 16]*	1,968,848	1,658,926
Bad debts (recovery)	(9,933)	394,615
Impairment of mortgage receivable *[Note 19]*	629,892	-
	6,909,016	6,647,117
Loss from operations	(1,456,525)	(29,445)
Gain on disposal of assets	6,529	11,470
Loss before income taxes	(1,449,996)	(17,975)
Provision for (recovery of) income taxes		
Current	-	(182,898)
Future	(806,415)	444,529
	(806,415)	261,631
Net loss and comprehensive loss for the year	(643,581)	(279,606)
Retained earnings, beginning of the year	5,621,107	5,900,713
Retained earnings, end of the year	$ 4,977,526	$ 5,621,107
Basic and diluted loss per share	$ (0.03)	$ (0.01)
Weighted average number of common shares outstanding	25,535,933	25,535,933

See accompanying Notes to the Consolidated Financial Statements

BEVO AGRO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

		2008		2007
				[Note 20]
Cash flows from operating activities				
Net loss for the year	**$**	**(643,581)**	$	(279,606)
Items not involving cash				
Amortization of property, plant and equipment		**1,574,009**		1,794,021
Amortization of intangibles		**169,000**		44,750
Amortization of deferred costs		**28,254**		31,365
Write-off of deferred financing costs		**124,089**		-
Stock-based compensation		**30,500**		25,415
Unrealized foreign exchange loss		**26,640**		32,635
Future income taxes (recovery)		**(806,415)**		444,529
Gain on disposal of assets		**(6,529)**		(11,470)
Impairment of mortgage receivable		**629,892**		-
Changes in non-cash working capital *[Note 11]*		**(1,038,227)**		35,113
		87,632		2,116,752
Cash flows from (used by) investing activities				
Acquisition of property, plant and equipment		**(461,463)**		(671,452)
Proceeds on disposal of property, plant and equipment		**17,800**		15,900
Deferred development costs		**(85,720)**		(479,370)
		(529,383)		(1,134,922)
Cash flows from (used by) financing activities				
Restricted cash		**(1,000,000)**		-
Bank indebtedness repayments		**(37,666)**		(962,829)
Deferred financing costs		**(111,758)**		(119,610)
Advances under long-term debt		**24,000,000**		16,575,000
Long-term debt repayments		**(21,861,050)**		(16,571,806)
Advances to (repayments of) obligations under capital leases		**(14,213)**		73,155
		975,313		(1,006,090)
Increase (decrease) in cash		**533,562**		(24,260)
Cash, beginning of year		**34,072**		58,332
Cash, end of year	**$**	**567,634**	$	34,072
Supplementary information:				
Interest paid	**$**	**1,825,281**	$	1,658,926
Income taxes paid	**$**	**0**	$	0

See accompanying Notes to the Consolidated Financial Statements

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. 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 integrated subsidiary, Bevo Farms Ltd. All significant intercompany balances and transactions have been eliminated.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of 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.

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

2. Significant accounting policies (continued)

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%

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.

2. Significant accounting policies (continued)

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.

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.

2. Significant accounting policies (continued)

Financial instruments

Effective July 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, "Financial Instruments – Recognition and Measurement", which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard requires the Company to account for certain financial assets and liabilities at fair value at each balance sheet date. Financial instruments must be classified into one of these 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)

Effective July 1, 2007, the Company adopted the CICA Handbook Section 1530, "Comprehensive Income", which establishes standards for presentation and disclosure of a statement of 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.

Future accounting changes

The following changes (a – d) will apply for the Company to interim and annual financial statements, commencing July 1, 2008. The Company is in the process of assessing the impact of these changes on its consolidated financial statements.

(a) Capital Disclosures

In February 2007, the CICA issued 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.

2. Significant accounting policies (continued)

(b) Financial Instruments

In February 2007, the CICA issued two new standards, Section 3862, "Financial Instruments Disclosures", and Section 3863, "Financial Instruments Presentation". These sections will replace the existing Section 3861, "Financial Instruments Disclosure and Presentation". Section 3862 provides users with information to evaluate the significance of the financial instruments for the entity's financial position and performance, nature and extent of risks arising for financial instruments and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

(c) Going-concern

In June 2007, the CICA amended 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.

(d) Inventories

In March 2007, the CICA issued the new Handbook Section 3031, "Inventories", which replaces Section 3030, "Inventories." The new section states that inventories shall be measured at the lower of cost and net realizable value. It provides guidelines on determining cost, prohibiting going forward the use of the last-in, first-out method (LIFO), and requires the reversal of a previous write-down when the value of inventories increases.

(e) Goodwill and Intangible Assets

This change will apply for the Company to interim and annual financial statements commencing July 1, 2009.

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.

2. Significant accounting policies (continued)

(f) 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

	2008	2007
Finished goods	**$ 1,572,069**	$ 1,821,565
Work-in-process	**631,584**	1,008,740
	$ 2,203,653	$ 2,830,305

4. Property, plant and equipment

	Cost	**Accumulated Amortization**	**Net book value 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**
	$ 42,010,718	**$ 14,152,149**	**$ 27,858,569**

	Cost	Accumulated Amortization	Net book value 2007
Land	$ 2,406,212	$ -	$ 2,406,212
Land improvements	629,682	167,817	461,865
Buildings	904,026	199,897	704,129
Equipment under capital lease	1,839,080	1,447,332	391,748
Greenhouse, shade and packing equipment	28,549,255	8,013,067	20,536,188
Machinery and equipment	7,340,151	2,857,907	4,482,244
	$ 41,668,406	$ 12,686,020	$ 28,982,386

5. Deferred costs

	Cost	Accumulated amortization	Net Book Value 2008	Net Book Value 2007
Deferred development costs	$ 565,090	$ 28,254	$ 536,836	$ 479,370
Deferred financing fees	-	-	-	124,089
	$ 565,090	$ 28,254	$ 536,836	$ 603,459

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

In the prior year, deferred financing fees related to costs incurred in obtaining the Bank of Montreal term loans. During the year the Company re-financed its term loans with Farm Credit Canada ("FCC"), and the Bank of Montreal term loans were repaid in full. As a result, the unamortized balance in deferred financing fees was written off as a charge to operations.

6. Goodwill and intangible assets

(a) Goodwill

	2008	2007
Goodwill	$ 262,747	$ 262,747

Goodwill represents the excess of the purchase price over the fair values of net assets acquired in the acquisition of a propagation greenhouse facility.

(b) Intangible assets

	2008	2007
Non-competition agreement, cost	$ 507,000	$ 507,000
Accumulated amortization	(295,750)	(126,750)
	$ 211,250	$ 380,250

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 in the amount of $2,000,000. This line of credit bears interest at prime plus 0.5%, is due on demand, and is secured by a first charge on inventory and accounts receivable and restricted cash consisting of a $1,000,000 cash deposit earning interest at prime less 2.25% that may not be utilized or reduced without the prior consent of the lender.

8. Long-term debt

	2008	2007
Bank of Montreal term loans	$ -	$ 16,517,042
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	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	11,000,000	-
FCC advance loan, maturing June 1, 2013, carries interest at FCC's variable rate, payable with monthly payments of interest only	1,000,000	-
Deferred borrowing costs	(111,758)	-
	22,888,242	-
De Lage Landen loan, maturing September 2009, carries interest of 7.75% per annum, repayable with blended monthly payments of $7,753	96,381	178,465
De Lage Landen loan, maturing September 2009, carries interest of 7.75% per annum, repayable with blended monthly payments of $1,141	16,262	28,186
	112,643	206,651
Non-competition agreement, non-interest bearing, unsecured		
Payment July 1, 2007	-	125,000
Payment December 1, 2007	-	125,000
Payment due July 1, 2008	100,000	100,000
Payment due July 1, 2009	75,000	75,000
	175,000	425,000
Banyan Capital Partners Limited Partnership debenture	-	5,000,000
Banyan Capital Partners Limited Partnership advance loan, maturing June 30, 2009, carries interest of 12% per annum.	1,000,000	-
	1,000,000	5,000,000
	24,175,885	22,148,693
Less: current portion of term debt	(2,153,926)	(6,109,103)
Total term debt	$ 22,021,959	$ 16,039,590

The FCC 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 Banyan Capital Partners Limited Partnership advance loan is secured by a second charge on inventories and receivables. 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).

8. Long-term debt (continued)

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

		2008		2007
2008	**$**	**-**	$	6,109,103
2009		**2,153,926**		1,013,538
2010		**1,089,668**		947,819
2011		**1,057,561**		914,546
2012		**1,111,777**		970,590
2013		**18,874,711**		-
Thereafter		**-**		12,193,097
	$	**24,287,643**	$	22,148,693

9. Obligations under capital leases

		2008		2007
Obligations under capital leases	**$**	**320,488**	$	336,489
Less: imputed interest		**30,447**		32,235
		290,041		304,254
Less: current portion		**116,448**		106,565
	$	**173,593**	$	197,689

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

		2008		2007
2008	**$**	**-**	$	106,565
2009		**116,448**		92,940
2010		**130,456**		104,749
2011		**28,111**		-
2012		**15,026**		-
	$	**290,041**	$	304,254

Annualized interest rates range from 7.08% to 8.80%.

10. Capital stock

Authorized:
Unlimited common shares without par value.

Issued:

	Number of Shares		Amount
Issued and outstanding as at June 30, 2008 and 2007	**25,535,933**	**$**	**4,008,443**

(a) Summary of stock options outstanding and exercisable as at June 30, 2008:

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

(b) Summary of stock option activity:

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	630,000	$ 0.28	630,000	$ 0.28
Expired	(130,000)	$ 0.30	-	$ 0.00
Outstanding, end of year	500,000	$ 0.28	630,000	$ 0.28

(c) 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.

(d) 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.

10. Capital stock (continued)

(e) 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**

11. Changes in non-cash working capital

		2008		2007
Accounts receivable	$	**(750,493)**	$	294,823
Income taxes receivable		**-**		82,686
Inventories		**626,652**		(1,319,399)
Prepaid expenses and deposits		**(50,513)**		60,793
Accounts payable and accruals		**(863,873)**		916,210
	$	**(1,038,227)**	$	35,113

12. Financial instruments and risk management

The Company has designated its cash, restricted cash and bank indebtedness as held-for-trading; accounts receivable and mortgage 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, restricted cash, 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 year-end, 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.

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, accounts receivable, mortgage receivable and restricted cash. Cash and restricted cash are 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. Mortgage receivable has been subjected to a 100% valuation allowance.

13. Commitments

Operating leases

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

		2008		2007
2008	**$**	**-**	$	6,791
2009		**5,843**		6,225
	$	**5,843**	$	13,016

14. Related party transactions

The Company participated in transactions with related parties as follows:

		2008		2007
Management fees paid to a company with directors in common	**$**	**504,000**	$	504,000
Directors' fees	**$**	**90,750**	$	91,545
Professional fees paid to companies owned by directors	**$**	**88,380**	$	116,689
Interest paid to a company with directors in common	**$**	**362,082**	$	500,000

The Company has the following related party loans payable:

		2008		2007
Convertible debenture from a company with a director in common	**$**	**-**	$	5,000,000
Advance loan from a company with a director in common	**$**	**1,000,000**	$	-

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. One of the directors is a principal of Banyan Capital Partners Limited Partnership (Note 8).

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

			2008		2007
Amortization	-property, plant and equipment	$	1,574,009	$	1,794,021
	-intangibles		169,000		44,750
		$	1,743,009	$	1,838,771

16. Interest

			2008		2007
Interest expense	-operating line of credit	$	95,354	$	98,162
	-term debt		1,167,706		1,009,885
	-convertible debenture		315,068		500,000
	-capital leases		21,821		5,420
	-amortization of deferred financing costs		-		31,365
	-write-off of deferred financing costs		124,089		-
	-prepayment penalty		242,008		-
	-other		2,802		14,094
		$	1,968,848	$	1,658,926

17. Income taxes

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

		2008		2007
Loss before income taxes	$	(1,449,996)	$	(17,975)
Income tax rate		32.56%		34.12%
Income tax benefit computed at Canadian statutory rates		(472,118)		(6,133)
Permanent differences		5,485		22,050
Tax-based capital cost allowance in excess of amortization		(263,544)		5,011
Temporary differences		105,977		(37,115)
Effect of change in enacted tax rates		(185,870)		-
Unrecognized tax loss		3,655		277,818
	$	(806,415)	$	261,631

17. Income taxes (continued)

Significant components of the Company's future income tax liability after applying enacted corporate income tax rates are as follows:

		2008		2007
Future income tax assets:				
Donations	**$**	**56,868**	$	64,032
Goodwill and intangibles, tax deductions available in excess of book values		**-**		34,155
Finance fees		**21,493**		-
Scientific research and experimental development expenditures		**150,391**		
Permanent differences		**81,705**		-
Non-capital losses carried forward		**726,284**		220,702
		1,036,741		318,889
Future income tax liabilities:				
Goodwill and intangibles, tax deductions available in excess of book values		**(6,375)**		-
Deferred costs		**-**		(4,687)
Property, plant and equipment - book values in excess of tax values		**(2,250,733)**		(2,340,984)
Future income tax liability, net	**$**	**(1,220,367)**	$	(2,026,782)

The Company has accumulated non-capital losses for Canadian tax purposes of $2,578,218 that expire in various years as follows:

2014	$	161,289
2027		349,493
2028		2,067,436
	$	2,578,218

The Company has claimed scientific research and experimental development investment tax credits for federal and provincial income tax purposes in the amount of $818,136 that may be used to reduce future income taxes payable and expire in various years as follows:

2015	$	371,419
2026		446,717
	$	818,136

The Company has not accrued the investment tax credits as it cannot be determined that the realization of these credits prior to expiry is reasonably assured.

18. Segmented information

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

	2008		
	Assets	**Sales**	**Property, Plant and Equipment**
Canada	**$ 36,351,900**	**$ 10,097,191**	**$ 27,858,569**
United States	**-**	**7,990,479**	**-**
Mexico	**-**	**1,675,788**	**-**
	$ 36,351,900	**$ 19,763,458**	**$ 27,858,569**

	2007		
	Assets	Sales	Property, Plant and Equipment
Canada	$ 36,659,956	$ 11,067,622	$ 28,982,386
United States	-	7,833,755	-
Mexico	-	893,765	-
	$ 36,659,956	$ 19,795,142	$ 28,982,386

Sales to one customer in the United States constitutes 26.3% of total sales.

19. Mortgage receivable

	2008	**2007**
Balance – beginning of year	**$ 656,532**	$ 689,167
Foreign exchange adjustment	**(26,640)**	(32,635)
	629,892	656,532
Less: valuation allowance	**(629,892)**	-
Balance – end of year	**$ -**	$ 656,532

The Company entered into a mortgage agreement on August 23, 2004. Under the terms of the agreement, the mortgage receivable was to be repaid in three equal annual payments beginning December 31, 2004, and bears interest at 8% per annum. The purchaser is in default of the terms of the mortgage agreement as it was not fully repaid by December 31, 2006, and consequently the interest rate on the mortgage has increased to 18%. The Company has initiated foreclosure proceedings on the property. Due to uncertainties on the collectability of the mortgage receivable, the Company has recorded an impairment allowance against the full amount.

20. Comparative figures

Certain of the 2007 comparative figures have been re-classified to conform to the current year's presentation.