BEVO AGRO INC.

CONSOLIDATED
FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2010 AND 2009

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 Morine & Company, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the financial statements.

"Jack Benne"

Jack Benne
President

Milner, British Columbia
August 9, 2010

Morine & Co.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

TO THE SHAREHOLDERS OF BEVO AGRO INC.

We have audited the consolidated balance sheets of Bevo Agro Inc. as at June 30, 2010 and 2009 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Morine & Co.

Chartered Accountants

White Rock, Canada
September 8, 2010

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BEVO AGRO INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30

		2010		2009
ASSETS				
Current				
Cash	**$**	**2,342,005**	$	507,808
Accounts receivable *[Note 3]*		**1,962,274**		1,558,955
Income taxes receivable		**182,898**		182,898
Inventories *[Note 4]*		**1,604,118**		2,286,177
Prepaid expenses and deposits		**92,676**		48,935
		6,183,971		4,584,773
Property, plant and equipment *[Note 5]*		**26,521,781**		26,790,966
Deferred costs *[Note 6]*		**166,422**		530,239
Goodwill *[Note 7]*		**262,747**		262,747
Intangible assets *[Note 7]*		**-**		105,625
	$	**33,134,921**	$	32,274,350
LIABILITIES				
Current				
Accounts payable and accruals *[Note 9]*	**$**	**1,465,876**	$	837,476
Current portion of long-term debt *[Note 10]*		**1,020,133**		1,050,895
Current portion of obligations under capital leases *[Note 11]*		**138,002**		130,456
		2,624,011		2,018,827
Long-term debt *[Note 10]*		**18,660,855**		19,677,129
Obligations under capital leases *[Note 11]*		**37,608**		43,137
Future income tax liability *[Note 21]*		**937,194**		715,298
		22,259,668		22,454,391
SHAREHOLDERS' EQUITY ***[Note 13]***				
Capital stock *[Note 12]*		**4,008,443**		4,008,443
Contributed surplus		**66,083**		66,083
Retained earnings		**6,800,727**		5,745,433
		10,875,253		9,819,959
	$	**33,134,921**	$	32,274,350

Commitments *[Note 16]*

On behalf of the Board:

"Jack Benne" *"John Hoekstra"*

Jack Benne, Director **John Hoekstra, Director**

See accompanying Notes to the Consolidated Financial Statements

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

	2010	2009
Sales ***[Note 18]***	**$ 19,921,973**	$ 17,876,355
Cost of sales	**14,145,637**	12,592,588
Gross margin	**5,776,336**	5,283,767
Expenses		
General operating	**998,160**	1,137,136
Administrative fees, wages and benefits	**1,169,354**	1,059,496
Amortization *[Note 19]*	**1,577,246**	1,629,934
Interest *[Note 20]*	**589,789**	1,008,850
Bad debts	**167,356**	185,513
	4,501,905	5,020,929
Earnings from operations	**1,274,431**	262,838
Gain on disposal of assets	**2,759**	-
Earnings before income taxes	**1,277,190**	262,838
Provision for (recovery of) income taxes		
Current	**-**	-
Future	**221,896**	(505,069)
	221,896	(505,069)
Net earnings and comprehensive earnings for the year	**1,055,294**	767,907
Retained earnings, beginning of the year	**5,745,433**	4,977,526
Retained earnings, end of the year	**$ 6,800,727**	$ 5,745,433
Basic and diluted earnings per share	**$ 0.04**	$ 0.03
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

		2010		2009
Cash flows from (used by) operating activities				
Net earnings for the year	$	1,055,294	$	767,907
Items not involving cash				
Amortization of property, plant and equipment		1,471,621		1,524,309
Amortization of intangibles		105,625		105,625
Amortization of deferred costs		103,599		113,018
Write-off of deferred development costs *[Note 6]*		320,218		-
Future income taxes (recovery)		221,896		(505,069)
Gain on disposal of assets		(2,759)		-
Changes in non-cash working capital *[Note 14]*		863,399		1,061,820
		4,138,893		3,067,610
Cash flows from (used by) investing activities				
Acquisition of property, plant and equipment		(1,240,397)		(469,705)
Proceeds on disposal of property, plant and equipment		40,720		13,000
Deferred ITC expenditures *[Note 6]*		(60,000)		(106,422)
		(1,259,677)		(563,127)
Cash flows from (used by) financing activities				
Restricted cash		-		1,000,000
Long-term debt repayments		(1,047,036)		(3,447,861)
Advances to (repayments of) obligations under capital leases		2,017		(116,448)
		(1,045,019)		(2,564,309)
Increase (decrease) in cash		1,834,197		(59,826)
Cash, beginning of year		507,808		567,634
Cash, end of year	$	2,342,005	$	507,808
Supplementary information:				
Interest paid *[Note 20]*	$	584,678	$	1,004,000
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. 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 subsidiaries: Bevo Farms Ltd. (Langley, BC), Bevo Agro Inc. (Nevada) and Bevo Farms Inc. (Arizona). Bevo Agro Inc. (Nevada) and Bevo Farms Inc. (Arizona) are both inactive. 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, 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.

2. Significant accounting policies (continued)

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%

2. Significant accounting policies (continued)

Impairment of long-lived assets

Long-lived assets consist of property, plant and equipment, and intangible assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use wherever events or changes in circumstances indicate that the carrying value of an asset, or group of assets may not be recoverable. Impairment losses are recognized where undiscounted future cash flows from its use and disposal are less than the carrying amount. Impairment loss is measured as the amount by which the asset carrying value exceeds fair value. Discounted cash flows are used to measure fair value. Any impairment is included in loss for the year.

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.

2. Significant accounting policies (continued)

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 credited 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.

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 on 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.

2. Significant accounting policies (continued)

Comprehensive earnings (loss)

Comprehensive earnings (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 earnings (loss) and other comprehensive earnings (loss). Other comprehensive earnings (loss) consists of gains and losses affecting shareholders' equity that, under generally accepted accounting principles, are excluded from net earnings (loss).

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

Going-concern

The Company has adopted 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. The Company has made this determination and as such these financial statements have been prepared on a going-concern basis.

Adoption of new accounting standards

The following new accounting standards were adopted during the fiscal year:

(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.

2. Significant accounting policies (continued)

Future accounting changes

The following change will apply to the Company for interim and annual financial statements, commencing July 1, 2011:

(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. Accounts receivable

		2010		2009
Trade receivables	**$**	**1,951,803**	$	1,482,183
GST receivable		**10,471**		(1,828)
Promissory note		**-**		78,600
	$	**1,962,274**	$	1,558,955

4. Inventories

		2010		2009
Finished goods	**$**	**1,136,108**	$	1,626,976
Work-in-process		**468,010**		659,201
	$	**1,604,118**	$	2,286,177

5. Property, plant and equipment

	Cost	Accumulated Amortization	Net book value 2010
Land	$ 2,406,212	$ -	$ 2,406,212
Land improvements	908,159	260,636	647,523
Buildings	1,093,501	290,879	802,622
Equipment under capital lease	428,321	205,590	222,731
Greenhouse, shade and packing equipment	29,030,435	10,963,363	18,067,072
Machinery and equipment	9,440,456	5,064,835	4,375,621
	$ 43,307,084	$ 16,785,303	$ 26,521,781

	Cost	Accumulated Amortization	Net book value 2009
Land	$ 2,406,212	$ -	$ 2,406,212
Land improvements	805,762	223,121	582,641
Buildings	1,028,055	259,904	768,151
Equipment under capital lease	428,321	155,913	272,408
Greenhouse, shade and packing equipment	28,635,066	10,016,193	18,618,873
Machinery and equipment	9,005,008	4,862,327	4,142,681
	$ 42,308,424	$ 15,517,458	$ 26,790,966

6. Deferred costs

	Cost	Accumulated amortization	Net Book Value 2010	Net Book Value 2009
Deferred development costs	$ 565,090	$ 565,090	$ -	$ 423,817
Deferred investment tax credit expenditures	166,422	-	166,422	106,422
	$ 731,512	$ 565,090	$ 166,422	$ 530,239

Deferred development costs consist of costs incurred in the development of two new product lines. These costs were being amortized on a straight-line basis over five years and charged to cost of sales. During the year the Company determined that the future market feasibility on these new product lines no longer existed, and as a result the remaining unamortized balance of $320,218 was written off.

Deferred investment tax credit (ITC) expenditures consist of costs incurred for the submission of Scientific Research & Experimental Development claims. These costs will be expensed over the period in which the tax credits will be utilized.

7. Goodwill and intangible assets

(a) Goodwill

	2010	2009
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

	2010	2009
Non-competition agreement, cost	**$ 507,000**	$ 507,000
Accumulated amortization	**(507,000)**	(401,375)
	$ -	$ 105,625

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.

8. Bank indebtedness

The Company has a revolving line of credit with the Bank of Montreal in the amount of $2,000,000. This line of credit bears interest at prime plus 1.5%, is due on demand, and is secured by a first charge on accounts receivable. There was no balance on the line of credit at June 30, 2010 nor at June 30, 2009.

9. Accounts payable and accruals

	2010	2009
Trade payables	**$ 909,288**	$ 517,776
GST payable	**-**	(12,786)
Other accruals	**491,497**	256,222
Customer deposits	**65,091**	76,264
	$ 1,465,876	$ 837,476

10. Long-term debt

	2010	2009
FCC term loan, maturing June 1, 2013, carries interest at FCC's variable rate minus 0.5%, repayable with blended monthly payments of $59,081	$ 10,069,797	$ 10,497,016
FCC term loan, maturing June 1, 2013, carries interest at FCC's variable rate minus 0.5%, repayable with blended monthly payments of $74,053	9,712,988	10,326,834
Deferred borrowing costs	(101,797)	(106,908)
	19,680,988	20,716,942
De Lage Landen loan, maturing September 2009, carries interest of 7.75% per annum, repayable with blended monthly payments of $7,753	-	7,704
De Lage Landen loan, maturing September 2009, carries interest of 7.75% per annum, repayable with blended monthly payments of $1,141	-	3,378
	-	11,082
	19,680,988	20,728,024
Less: current portion of term debt	(1,020,133)	(1,050,895)
Total term debt	$ 18,660,855	$ 19,677,129

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 deferred borrowing costs are amortized as the principal on the loan is repaid and are included as interest on term debt (Note 20).

10. Long-term debt (continued)

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

	2010	2009
2010	$ -	$ 1,050,895
2011	1,020,133	1,066,895
2012	1,047,553	1,095,242
2013	1,080,911	1,123,842
2014	1,113,788	-
Thereafter	15,520,400	16,498,058
Less: deferred borrowing costs	(101,797)	(106,908)
	$ 19,680,988	$ 20,728,024

11. Obligations under capital leases

	2010	2009
Obligations under capital leases	$ 180,720	$ 185,688
Less: imputed interest	5,110	12,095
	175,610	173,593
Less: current portion	138,002	130,456
	$ 37,608	$ 43,137

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

	2010	2009
2010	$ -	$ 130,456
2011	138,002	28,111
2012	37,608	15,026
2013	-	-
	$ 175,610	$ 173,593

Annualized interest rates range from 7.08% to 8.80%.

12. Capital stock

Authorized:

Unlimited common shares without par value.

Issued:

	Number of Shares		Amount
Issued and outstanding as at June 30, 2010 and 2009	**25,535,933**	**$**	**4,008,443**

(a) No stock options are outstanding and exercisable as at June 30, 2010:

(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.

13. Capital Management

The Company defines capital that it manages as its shareholders' equity. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. As at June 30, 2010, total managed capital was $10,875,253, compared to $9,819,959 as at June 30, 2009.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue shares, acquire debt, or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. These budgets are approved by the Company's Board of Directors.

In order to maximize its ongoing operations, the Company does not pay out dividends. The Company's investment policy is to invest its cash in interest-bearing accounts with Canadian chartered banks.

The Company expects the capital resources available to it will be sufficient to carry its business and operations for the next twelve months.

There were no changes in the Company's approach to capital management during the year ended June 30, 2010. The Company is not subject to externally imposed capital requirements.

14. Changes in non-cash working capital

		2010		2009
Accounts receivable	$	**(403,319)**	$	1,868,880
Inventories		**682,059**		(82,524)
Prepaid expenses and deposits		**(43,741)**		51,543
Accounts payable and accruals		**628,400**		(776,079)
	$	**863,399**	$	1,061,820

15. 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 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.

15. 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.

16. Commitments

Operating leases

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

	2010	2009
2010	**$ 11,369**	$ 11,369
2011	**11,369**	11,369
2012	**11,369**	11,369
	$ 34,107	$ 34,107

17. Related party transactions

The Company participated in transactions with related parties as follows:

		2010		2009
Management fees paid to a company with directors in common	$	554,000	$	504,000
Directors' fees		69,250		75,250
Professional fees paid to companies owned by directors		13,708		13,855
Interest paid to a company with directors in common	$	-	$	53,260

The president and vice-president provide management services to the Company through their management company and have provided a guarantee against term loans (Note 10). 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.

18. Sales

			2010		2009
Sales	-propagation	$	17,002,328	$	16,283,187
	-cucumber production		1,107,811		869,605
	-AgriStability payment		1,101,624		-
	-other government assistance		19,176		120,886
	-currency gains (losses)		691,034		602,677
		$	19,921,973	$	17,876,355

Agristability is a federal program that provides financial assistance to farms that experience declines in sales and margins due to weather, disease and low market prices. Payments are made in the form of grants, which require no repayment. The AgriStability payment of $1,101,624 during the year represents a payment of $871,378 for the 2007 program year, and a payment of $230,246 for the 2008 program year.

19. Amortization

		2010	2009
Amortization	-property, plant and equipment	$ 1,471,621	$ 1,524,309
	-intangibles	105,625	105,625
		$ 1,577,246	$ 1,629,934

20. Interest

		2010	2009
Interest expense	-operating line of credit	$ 8,335	$ 13,068
	-term debt	560,646	969,947
	-capital leases	13,318	18,352
	-amortization of deferred financing costs	5,111	4,850
	-other	2,379	2,633
		$ 589,789	$ 1,008,850

21. Income taxes

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

	2010	2009
Earnings (loss) before income taxes	$ 1,277,190	$ 262,838
Income tax rate	30.00%	31.00%
Income tax benefit computed at Canadian statutory rates	383,157	81,480
Permanent differences	5,285	1,221
Tax-based capital cost allowance in excess of amortization	8,637	(148,625)
Temporary differences	(50,844)	(420,627)
Effect of change in enacted tax rates	-	(18,518)
Unrecognized tax loss	(124,339)	-
	$ 221,896	$ (505,069)

21. Income taxes (continued)

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

		2010		2009
Future income tax assets:				
Donations	**$**	**-**	$	46,261
Goodwill and intangibles, tax deductions available in excess of book values		**36,378**		14,649
Finance fees and prepayment penalties		**36,255**		61,418
Scientific research and experimental development expenditures and tax credits		**1,097,225**		1,097,225
Non-capital losses carried forward		**528,314**		682,046
		1,698,172		1,901,599
Future income tax liabilities:				
Goodwill and intangibles, tax deductions available in excess of book values		**-**		-
Deferred costs		**(47,430)**		(151,118)
Property, plant and equipment - book values in excess of tax values		**(2,587,936)**		(2,465,779)
Future income tax liability, net	**$**	**(937,194)**	$	(715,298)

The Company has accumulated non-capital losses for Canadian tax purposes of $1,853,735 that expire in various years as follows:

2014	$	46,838
2028		1,315,828
2029		76,606
2030		414,463
	$	1,853,735

The Company has claimed scientific research and experimental development investment tax credits for federal and provincial income tax purposes in the amount of $1,097,225 that may be used to reduce future income taxes payable and expire in various years as follows:

2015	$	371,419
2026		446,717
2027		279,089
	$	1,097,225

22. Segmented information

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

	2010		
	Assets	**Sales**	**Property, Plant and Equipment**
Canada	**$ 33,134,921**	**$ 9,249,862**	**$ 26,521,781**
United States	**-**	**10,467,737**	**-**
Mexico	**-**	**204,374**	**-**
	$ 33,134,921	**$ 19,921,973**	**$ 26,521,781**

	2009		
	Assets	Sales	Property, Plant and Equipment
Canada	$ 32,274,350	$ 8,420,311	$ 26,790,966
United States	-	8,715,285	-
Mexico	-	740,759	-
	$ 32,274,350	$ 17,876,355	$ 26,790,966

Sales to one customer in the United States constitutes 41.98% of total sales.