BEVO AGRO INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2011 AND 2010

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 8, 2011

Morine & Co.

CHARTERED ACCOUNTANTS LLP

Auditors' Report

To the Shareholders of Bevo Agro Inc.

We have audited the accompanying consolidated financial statements of Bevo Agro Inc., which comprise the consolidated balance sheets as at June 30, 2011 and 2010, and the consolidated statements of operations and retained earnings and cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bevo Agro Inc. as at June 30, 2011 and 2010, and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Morine & Co.

Chartered Accountants, LLP
White Rock, Canada
August 10, 2011

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BEVO AGRO INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30

	2011	2010
ASSETS		
Current		
Cash	$ 647,251	$ 2,342,005
Accounts receivable *[Note 3]*	3,285,539	1,962,274
Income taxes receivable	-	182,898
Inventories *[Note 4]*	1,684,405	1,604,118
Prepaid expenses and deposits	83,050	92,676
	5,700,245	6,183,971
Property, plant and equipment *[Note 5]*	27,765,824	26,521,781
Deferred costs *[Note 6]*	166,422	166,422
Goodwill *[Note 7]*	522,665	262,747
	$ 34,155,156	$ 33,134,921
LIABILITIES		
Current		
Accounts payable and accruals *[Note 9]*	$ 1,626,497	$ 1,465,876
Current portion of long-term debt *[Note 10]*	951,706	1,020,133
Current portion of obligations under capital leases *[Note 11]*	57,636	138,002
	2,635,839	2,624,011
Long-term debt *[Note 10]*	19,758,412	18,660,855
Obligations under capital leases *[Note 11]*	55,094	37,608
Future income tax liability *[Note 21]*	753,670	937,194
	23,203,015	22,259,668
SHAREHOLDERS' EQUITY *[Note 13]*		
Capital stock *[Note 12]*	4,008,443	4,008,443
Contributed surplus *[Note 12]*	98,843	66,083
Retained earnings	6,844,855	6,800,727
	10,952,141	10,875,253
	$ 34,155,156	$ 33,134,921

Commitments *[Note 16]*

On behalf of the Board:

"Jack Benne" — **Jack Benne, Director**

"John Hoekstra" — **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

	2011	2010
Sales *[Note 18]*	$ 18,263,703	$ 19,921,973
Cost of sales	13,724,854	14,145,637
Gross margin	4,538,849	5,776,336
Expenses		
General operating	1,083,130	998,160
Administrative fees, wages and benefits	1,207,592	1,169,354
Amortization *[Note 19]*	1,462,655	1,577,246
Interest *[Note 20]*	704,571	589,789
Bad debts	37,399	167,356
	4,495,347	4,501,905
Earnings from operations	43,502	1,274,431
Gain on disposal of assets	-	2,759
Earnings before income taxes	43,502	1,277,190
Provision for (recovery of) income taxes		
Future	(626)	221,896
Net earnings and comprehensive earnings for the year	44,128	1,055,294
Retained earnings, beginning of the year	6,800,727	5,745,433
Retained earnings, end of the year	$ 6,844,855	$ 6,800,727
Basic and diluted earnings per share	$ 0.00	$ 0.04
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

	2011	2010
Cash flows from (used by) operating activities		
Net earnings for the year	$ 44,128	$ 1,055,294
Items not involving cash		
Amortization of property, plant and equipment	1,462,655	1,471,621
Amortization of intangibles	-	105,625
Amortization of deferred costs	-	103,599
Write-off of deferred development costs	-	320,218
Stock-based compensation	32,760	-
Future income taxes (recovery)	(183,524)	221,896
Gain on disposal of assets	-	(2,759)
Changes in non-cash working capital *[Note 14]*	(1,050,407)	863,399
	305,612	4,138,893
Cash flows from (used by) investing activities		
Acquisition of property, plant and equipment	(2,727,198)	(1,240,397)
Acquisition of subsidiary *[Note 7]*	(259,918)	-
Proceeds on disposal of property, plant and equipment	20,500	40,720
Deferred ITC expenditures	-	(60,000)
	(2,966,616)	(1,259,677)
Cash flows from (used by) financing activities		
Long-term debt repayments	(940,052)	(1,047,036)
Advances under long-term debt	1,969,182	-
Advances to (repayments of) obligations under capital leases	(62,880)	2,017
	966,250	(1,045,019)
Increase (decrease) in cash	(1,694,754)	1,834,197
Cash, beginning of year	2,342,005	507,808
Cash, end of year	$ 647,251	$ 2,342,005
Supplementary information:		
Interest paid *[Note 20]*	$ 699,185	$ 584,678
Income taxes paid	$ -	$ -

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 Energy Inc. (Langley, BC) (formerly Gennex Holdings Inc.), 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 work in progress 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%

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.

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.

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.

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 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.

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.

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.

The Company has developed an IFRS changeover plan which will address areas such as accounting policies, financial reporting, controls and procedures, information systems and training. The Company, as part of the changeover plan, is currently identifying differences in accounting policies with respect to the transition to IFRS. Our preliminary review of IFRS indicates that the majority of our accounting policies are acceptable under IFRS. Some of the differences which have been initially identified are as follows:

- First-time adoption of IFRS
- Property, plant and equipment
- Impairments
- Share-based payment
- Financial statement preparation, presentation and disclosure

The Company acknowledges that the above list is not exhaustive of all possible items that will occur upon transition to IFRS.

3. Accounts receivable

	2011	2010
Trade receivables	$ 3,199,538	$ 1,951,803
HST / GST receivable	86,001	10,471
	$ 3,285,539	$ 1,962,274

4. Inventories

	2011	2010
Materials / supplies	$ 1,250,190	$ 1,136,108
Work-in-process	434,215	468,010
	$ 1,684,405	$ 1,604,118

5. Property, plant and equipment

	Cost	Accumulated Amortization	Net book value 2011
Land	$ 2,406,212	$ -	$ 2,406,212
Land improvements	908,159	297,088	611,071
Buildings	1,113,689	321,512	792,177
Equipment under capital lease	428,321	260,256	168,065
Greenhouse, shade and packing equipment	29,076,496	11,881,540	17,194,956
Machinery and equipment	9,889,689	5,284,387	4,605,302
Capital project in progress	1,988,041	-	1,988,041
	$ 45,810,607	$ 18,044,783	$ 27,765,824

	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

6. Deferred costs

	Cost	Accumulated amortization	Net Book Value 2011	Net Book Value 2010
Deferred investment tax credit expenditures	$ 166,422	$ -	$ 166,422	$ 166,422

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

	2011	2010
Goodwill	$ 262,747	$ 262,747
Goodwill from acquisition of Gennex Holdings Inc.	259,918	-
Closing balance	$ 522,665	$ 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 and wood fuel supply facility.

During the year ended June 30, 2011, the Company agreed to acquire 100% of the issued shares of Gennex Holdings Inc. ("Gennex"), a British Columbia private company, from two vendors, one arm's length and one non-arm's length, each as to 50%. The non-arm's length vendor is C.G.M. Ventures Inc., which is wholly owned by Jack Benne, his spouse and Leo Benne. Gennex is in the business of sourcing and supplying wood fuel used to fuel wood burners. All of the Company's greenhouses are heated by burners using wood fuel and Gennex is the Company's primary supplier. Gennex has supply contracts that provide consistent, high-quality fuel, and as such the Company feels that the acquisition is a strategic fit. As consideration for the acquisition, the Company agreed to assume the net liabilities of Gennex in the sum of $259,918. The transaction closed on April 1, 2011. Subsequent to the acquisition, the Company changed its name from Gennex Holdings Inc. to Bevo Energy Inc.

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 0.75%, 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, 2011 nor at June 30, 2010.

9. Accounts payable and accruals

		2011		2010
Trade payables	$	1,263,160	$	909,288
Other accruals		322,319		491,497
Customer deposits		41,018		65,091
	$	1,626,497	$	1,465,876

10. Long-term debt

		2011		2010
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	$	9,694,450	$	10,069,797
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		9,142,897		9,712,988
FCC term loan, maturing July 1, 2016, carries interest at FCC's variable rate minus 0.5%, repayable with blended monthly payments of $17,360 commencing August 1, 2012		1,969,182		-
Deferred borrowing costs		(96,411)		(101,797)
		20,710,118		19,680,988
Less: current portion of term debt		(951,706)		(1,020,133)
Total term debt	$	19,758,412	$	18,660,855

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:

	2011	2010
2011	$ -	$ 1,020,133
2012	951,706	1,047,553
2013	988,317	1,080,911
2014	1,022,432	1,113,788
2015	1,058,797	-
Thereafter	16,785,277	15,520,400
Less: deferred borrowing costs	(96,411)	(101,797)
	$ 20,710,118	$ 19,680,988

11. Obligations under capital leases

	2011	2010
Obligations under capital leases	$ 125,569	$ 180,720
Less: imputed interest	12,839	5,110
	112,730	175,610
Less: current portion	57,636	138,002
	$ 55,094	$ 37,608

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

	2011	2010
2011	$ -	$ 138,002
2012	57,636	37,608
2013	55,094	-
	$ 112,730	$ 175,610

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, 2011 and 2010	25,535,933	$	4,008,443

(a) Summary of stock options outstanding and exercisable as at June 30, 2011:

Security type	Number outstanding	Price	Expiry date
Stock options	1,050,000	$ 0.18	May 11, 2021

(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 11, 2011, the Company granted stock options under its 2004 stock option plan to directors and officers for the purchase of 1,050,000 common shares at a price of $0.18 per share. One-third of these options vested as of May 11, 2011, one-third will vest on May 11, 2012 and one-third will vest on May 11, 2013. The options will expire on May 11, 2021.

(d) Contributed surplus

Contributed surplus is comprised of the following:

Balance, June 30, 2010	$	66,083
Stock-based compensation for the year		32,760
Balance, June 30, 2011	$	98,843

During the year ended June 30, 2011, the compensation cost of stock options vested was $32,760, which has been included in administrative fees, wages and benefits expense.

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, 2011, total managed capital was $10,915,835, compared to $10,875,253 as at June 30, 2010.

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, 2011. The Company is not subject to externally imposed capital requirements.

14. Changes in non-cash working capital

	2011	2010
Accounts receivable	$ (1,323,265)	$ (403,319)
Income taxes receivable	182,898	-
Inventories	(80,287)	682,059
Prepaid expenses and deposits	9,626	(43,741)
Accounts payable and accruals	160,621	628,400
	$ (1,050,407)	$ 863,399

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.

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 two years are as follows:

	2011	2010
2011	$ -	$ 11,369
2012	11,575	11,369
2013	2,894	2,842
	$ 14,469	$ 25,580

Greenhouse expansion

The Company recently announced plans for a five acre expansion to its Langley, BC propagation facility. Total costs are estimated at $4.2 million which the Company anticipates will be financed through a combination of new debt and internal resources. The greenhouse expansion is expected to be completed in the fall of 2011.

17. Related party transactions

The Company participated in transactions with related parties as follows:

	2011	2010
Management fees paid to a company with directors in common	$ 554,000	$ 554,000
Directors' fees	91,000	69,250
Professional fees paid to companies owned by directors	$ 12,388	$ 13,708

The president and vice-president provide management services to the Company through their management company, which has 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.

During the year, the Company also acquired 100% of the shares of Gennex Holdings Inc. – see Note 7.

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

			2011		2010
Sales	-propagation	$	17,987,369	$	17,002,328
	-cucumber production		378,633		1,107,811
	-AgriStability payment		-		1,101,624
	-other government assistance		22,500		19,176
	-currency gains (losses)		(124,799)		691,034
		$	18,263,703	$	19,921,973

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 2010 fiscal 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

			2011		2010
Amortization	-property, plant and equipment	$	1,462,655	$	1,471,621
	-intangibles		-		105,625
		$	1,462,655	$	1,577,246

20. Interest

			2011		2010
Interest expense	-operating line of credit	$	16,274	$	8,335
	-term debt		670,016		560,646
	-capital leases		10,808		13,318
	-deferred financing costs		5,386		5,111
	-other		2,087		2,379
		$	704,571	$	589,789

21. Income taxes

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

		2011		2010
Earnings (loss) before income taxes	$	**43,502**	$	1,277,190
Income tax rate		**25.00%**		30.00%
Income tax benefit computed at Canadian statutory rates		**10,876**		383,157
Permanent differences		**9,639**		5,285
Tax-based capital cost allowance in excess of amortization		**(100,960)**		8,637
Temporary differences		**(7,762)**		(50,844)
Unrecognized tax loss		**(88,208)**		(124,339)
Effect of CRA assessment on SR&ED claims and losses carried forward		**175,789**		-
	$	**(626)**	$	221,896

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

		2011		2010
Future income tax assets:				
Donations	$	**36,700**	$	-
Goodwill and intangibles, tax deductions available in excess of book values		**-**		36,378
Finance fees and prepayment penalties		**12,100**		36,255
Scientific research and experimental development expenditures and tax credits		**1,088,971**		1,097,225
Non-capital losses carried forward		**613,555**		528,314
		1,751,326		1,698,172
Future income tax liabilities:				
Goodwill and intangibles, book values in excess of tax values		**(39,901)**		-
Deferred costs		**(41,606)**		(47,430)
Property, plant and equipment - book values in excess of tax values		**(2,423,489)**		(2,587,936)
Future income tax liability, net	$	**(753,670)**	$	(937,194)

21. Income taxes (continued)

The Company has accumulated non-capital losses for Canadian tax purposes of $2,454,220 that expire in various years as follows:

2014	$	1,812
2028		1,324,586
2029		76,606
2030		611,388
2031		439,828
	$	2,454,220

The Company has claimed scientific research and experimental development investment tax credits for federal and provincial income tax purposes in the amount of $1,088,971 that may be used to reduce future income taxes payable and expire in various years commencing in 2015.

22. Segmented information

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

	2011		
	Assets	**Sales**	**Property, Plant and Equipment**
Canada	$ 34,155,156	$ 8,671,719	$ 27,765,824
United States	-	9,591,984	-
Mexico	-	-	-
	$ 34,155,156	$ 18,263,703	$ 27,765,824

	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

Sales to one customer in the United States constitutes 42.82% of total sales.