BEVO AGRO INC.

CONSOLIDATED
FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2012 AND 2011

AUDITORS' REPORT

To the Shareholders of BEVO AGRO INC.:

We have audited the accompanying consolidated financial statements of BEVO AGRO INC., which comprise the balance sheet as at June 30, 2012 and 2011 and July 1, 2010, and the consolidated statements of operations and comprehensive income and cash flows for the years ended June 30, 2012 and 2011, 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BEVO AGRO INC. as at June 30, 2012 and 2011 and July 1, 2010, and the results of its operations and its cash flow for the years ended June 30, 2012 and 2011 in accordance with Canadian generally accepted accounting principles.

Morine & Co

White Rock, Canada
September 10, 2012

Chartered Accountants LLP

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BEVO AGRO INC.
CONSOLIDATED BALANCE SHEETS
YEARS ENDED JUNE 30 (Canadian $)

	June 30, 2012	June 30, 2011	July 1, 2010
ASSETS		*(Restated Note 23)*	*(Restated Note 23)*
Current			
Cash and cash equivalents	**$ 629,990**	$ 647,251	$ 2,342,005
Accounts receivable *[Note 3]*	**2,018,902**	3,285,539	1,962,274
Income taxes receivable	**-**	-	182,898
Inventories *[Note 4]*	**1,589,481**	1,684,405	1,604,118
Prepaid expenses and deposits	**82,607**	83,050	92,676
	4,320,980	5,700,245	6,183,971
Property, plant and equipment *[Note 5]*	**32,700,806**	31,299,612	30,055,569
Deferred costs *[Note 6]*	**185,344**	166,422	166,422
Goodwill *[Note 7]*	**522,665**	522,665	262,747
	$ 37,729,795	$ 37,688,944	$ 36,668,709
LIABILITIES			
Current			
Accounts payable and accruals *[Note 9]*	**$ 1,421,696**	$ 1,626,497	$ 1,465,876
Current portion of long-term debt *[Note 10]*	**1,149,134**	951,706	1,020,133
Current portion of obligations under finance leases *[Note 11]*	**80,342**	57,636	138,002
	2,651,172	2,635,839	2,624,011
Long-term debt *[Note 10]*	**19,579,217**	19,758,412	18,660,855
Obligations under finance leases *[Note 11]*	**99,178**	55,094	37,608
Deferred income tax liability *[Note 12]*	**1,174,689**	1,587,117	1,770,641
	23,504,256	24,036,462	23,093,115
SHAREHOLDERS' EQUITY *[Note 14]*			
Capital stock *[Note 13]*	**4,008,443**	4,008,443	4,008,443
Contributed surplus *[Note 13]*	**100,119**	98,843	66,083
Retained earnings	**10,116,977**	9,545,196	9,501,068
	14,225,539	13,652,482	13,575,594
	$ 37,729,795	$ 37,688,944	$ 36,668,709

Commitments *[Note 17]*

Authorized for issue by the board of directors on September 19, 2012:

"Jack Benne"
Jack Benne, Director

"John Hoekstra"
John Hoekstra, Director

See accompanying Notes to the Financial Statements

BEVO AGRO INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED JUNE 30 (Canadian $)

	2012	2011
		(Restated Note 23)
Sales ***[Note 19]***	**$ 18,897,742**	$ 18,263,703
Cost of sales	**14,139,870**	13,724,854
Gross margin	**4,757,872**	4,538,849
Expenses		
Selling, general and administrative expenses *[Note 20]*	**3,694,368**	3,790,776
Income from operations	**1,063,504**	748,073
Interest expense *[Note 21]*	**904,151**	704,571
Income before income taxes	**159,353**	43,502
Provision for (recovery of) income taxes	**(412,428)**	(626)
Net income and comprehensive income for the period	**571,781**	44,128
Retained earnings, beginning of the period	**9,545,196**	9,501,068
Retained earnings, end of the period	**$ 10,116,977**	$ 9,545,196
Basic and diluted earnings (loss) per share	**$ 0.02**	$ 0.00
Weighted average number of common shares outstanding	**25,535,933**	**25,535,933**

See accompanying Notes to the Financial Statements

BEVO AGRO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30 (Canadian $)

	2012	2011
Cash flows from (used by) operating activities		
Net income and comprehensive income for the period	$ 571,781	$ 44,128
Items not involving cash		
Depreciation of property, plant and equipment	1,542,322	1,462,655
Stock-based compensation	1,276	32,760
Deferred income taxes (recovery)	(412,428)	(183,524)
Changes in non-cash working capital *[Note 15]*	1,157,203	(1,050,407)
	2,860,154	305,612
Cash flows from (used by) investing activities		
Acquisition of property, plant and equipment	(3,001,043)	(2,727,198)
Acquisition of subsidiary *[Note 7]*	-	(259,918)
Proceeds on disposal of property, plant and equipment	57,528	20,500
Deferred ITC expenditures *[Note 6]*	(18,922)	-
	(2,962,437)	(2,966,616)
Cash flows from (used by) financing activities		
Long-term debt repayments	(1,012,585)	(940,052)
Advances under long-term debt	1,030,818	1,969,182
Advances (repayments) of obligations under finance leases	66,789	(62,880)
	85,022	966,250
Increase (decrease) in cash	(17,261)	(1,694,754)
Cash, beginning of period	647,251	2,342,005
Cash, end of period	$ 629,990	$ 647,251
Supplementary information:		
Interest paid *[Note 21]*	$ 898,413	$ 699,185

See accompanying Notes to the Financial Statements

BEVO AGRO INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEARS ENDED JUNE 30 (Canadian $)

	Capital stock	Contributed surplus	Retained earnings	Total equity
				(Restated Note 23)
Balance at July 1, 2011	**$ 4,008,443**	**$ 98,843**	**$ 9,545,196**	**$ 13,652,482**
Net income and comprehensive income for the year	**-**	**-**	**571,781**	**571,781**
Stock-based compensation		**1,276**		**1,276**
Balance at June 30, 2012	**$ 4,008,443**	**$ 100,119**	**$ 10,116,977**	**$ 14,225,539**

	Capital stock	Contributed surplus	Retained earnings	Total equity
				(Restated Note 23)
Balance at July 1, 2010	$ 4,008,443	$ 66,083	$ 9,501,068	$ 13,575,594
Net income and comprehensive income for the year	-	-	44,128	44,128
Stock-based compensation		32,760		32,760
Balance at June 30, 2011	$ 4,008,443	$ 98,843	$ 9,545,196	$ 13,652,482

See accompanying Notes to the Financial Statements

1. Nature of operations

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 39 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

Conversion to International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that IFRS will replace Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These are the Company's first annual consolidated financial statements prepared in accordance with IFRS. Prior to July 1, 2011, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with GAAP. The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under GAAP.

Initial adoption of International Financial Reporting Standards

The guidance for the first time adoption of IFRS is set out in IFRS 1, "First Time Adoption of International Financial Reporting Standards". IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company is not applying any optional exemptions on first time adoption.

2. Significant accounting policies (continued)

Basis of preparation

The accounting policies set out below have been applied consistently to all periods presented. They have also been applied in the preparation of an opening IFRS consolidated balance sheet as at July 1, 2010, as required by IFRS 1, "First Time Adoption of International Financial Reporting Standards". The impact of the transition from GAAP to IFRS is explained in Note 23.

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

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), 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 upon consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, 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. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments, estimates and assumptions.

Significant areas requiring the use of estimates include the determination of rates for depreciation, goodwill and intangibles, inventory valuation, 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

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. 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. Net realizable value is the estimated selling price in the ordinary course of business, less any cost to complete and sell the goods.

The cost of supplies inventories includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition.

Biological assets (work in progress) inventories include materials, labour and direct overhead costs, which approximates fair value less costs to sell.

Income taxes

The Company follows the balance sheet method of accounting for income taxes. Under this method of tax allocation, deferred tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Deferred 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 deferred 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 deferred tax assets is limited to the amount of the benefit that is more likely than not to be realized.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments, having maturity dates of three months or less from the date of purchase, and are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions.

Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts, and after eliminating intercompany sales.

Revenue is recognized when the risk and rewards of ownership pass to the buyer, when the amount of revenue can be reliably measured, and when collection is reasonably assured. This generally occurs when the products are shipped from the Company's premises.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

2. Significant accounting policies (continued)

Property, plant and equipment

Land held for use in production or administration is stated at revalued amounts. Revalued amounts are fair values determined by appropriate external revaluation methods. As land is assumed to have an unlimited useful life, it is not amortized.

Any revaluation surplus arising upon appraisal of land is recognized in other comprehensive income and credited to the "revaluation reserve" in equity. Any revaluation decrease arising upon appraisal of land is charged to other comprehensive income.

All other items of property, plant and equipment ("PPE") are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use.

When an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Estimates of residual values and useful lives of all items of PPE are assessed annually.

Depreciation is provided using the declining balance method 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 finance lease	10 - 30%
Capital projects in progress	See below

Capital projects in progress include PPE in the course of construction not yet completed and ready for intended use. Capital projects in progress are carried at cost less any impairment loss, and are classified to the appropriate category of PPE once completed and ready for use. Depreciation of these assets commences when the assets are ready for their intended use.

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposal of PPE are determined by comparing the proceeds from disposal with the carrying value, and are recognized in profit or loss.

2. Significant accounting policies (continued)

Impairment

At the end of each reporting period, the carrying amount of the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell, and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. If an impairment loss reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of impairment loss is recognized immediately in profit or loss.

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.

2. Significant accounting policies (continued)

Basic and diluted 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 period. Diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings (loss) per share.

Share-based payment transactions

The Company grants stock options to allow directors and employees to acquire common shares of the Company. The fair value of options granted is recognized as an expense with a corresponding credit to contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

The fair value of stock options is measured on the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period. At each financial reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Leases

Leases meeting certain criteria are accounted for as finance 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 and the leased assets are not recognized on the Company's balance sheet.

Agriculture – biological assets

International accounting standard 41 prescribes the accounting treatment for agricultural activity. Agricultural activity is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce or into additional biological assets. A biological asset is a living animal or plant. Biological assets are recognized when the Company controls the asset as a result of past events, it is probable that future benefits will flow to the Company, and the fair value can be reliably measured. A biological asset is measured on initial recognition and at the end of each reporting period, at its fair value less costs to sell. Fair value is the current market value at which a willing buyer and seller would enter into a transaction. Changes in fair value less costs to sell are included in profit and loss for the period.

2. Significant accounting policies (continued)

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: fair value through profit or loss, held-to-maturity, loans and receivables or available-for-sale.

Financial assets classified as fair value through profit or loss ("FVTPL") are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash and cash equivalents are classified as FVTPL.

Financial assets classified as held-to-maturity and loans and receivables are measured at amortized cost. The Company's accounts receivable are classified as loans-and-receivables. At June 30, 2012 the Company has not classified any financial assets as held-to-maturity.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income. At June 30, 2012 the Company has not classified any financial assets as available-for-sale.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition of the asset, the estimated future cash flows of the asset has been impacted.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception into one of the following two categories: fair value through profit or loss or other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. At June 30, 2012 the Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The Company's bank indebtedness, accounts payable and accruals and long-term debt are classified as other financial liabilities.

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)

Segment reporting

The Company operates in a single operating segment – propagation and production of greenhouse products.

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 earnings (loss) and other comprehensive earnings (loss). Other comprehensive income (loss) consists of gains and losses affecting shareholders' equity that are excluded from net income (loss).

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

Going concern

These consolidated financial statements have been prepared on the basis that the Company continue as a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations as they come due.

Adoption of new accounting standards

The following new accounting standard was adopted during the fiscal year.

International Financial Reporting Standards ("IFRS") - In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that IFRS will replace Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011.

2. Significant accounting policies (continued)

Future accounting changes

The following new accounting standards are applicable for reporting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of these standards or determined whether it will adopt these standards early.

International Financial Reporting Standards # 9 – Financial Instruments - Addresses the classification, measurement and de-recognition of financial assets and financial liabilities.

International Financial Reporting Standards # 10 – Consolidations – Establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

International Financial Reporting Standards # 12 – Disclosure of Interests in Other Entities – Establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements and associates.

International Financial Reporting Standards # 13 – Fair Value Measurement – Defines fair value and the methods to be used in measuring fair value including enhanced disclosure requirements in those areas that permit fair value measurement.

3. Accounts receivable

	June 30, 2012	June 30, 2011	July 1, 2010
Trade receivables	**$ 2,004,395**	$ 3,199,538	$ 1,951,803
HST receivable	**14,507**	86,001	10,471
	$ 2,018,902	$ 3,285,539	$ 1,962,274

4. Inventories

	June 30, 2012	June 30, 2011	July 1, 2010
Supplies	**$ 891,722**	$ 1,250,190	$ 1,136,108
Biological assets	**697,759**	434,215	468,010
	$ 1,589,481	$ 1,684,405	$ 1,604,118

5. Property, plant and equipment

	Opening net book value July 1, 2011	Additions	Disposals	Depreciation	Closing net book value June 30, 2012
Land	$ 5,940,000	$ -	$ -	$ -	$ 5,940,000
Land improvements	611,071	98,501	-	35,869	673,703
Buildings	792,177	8,598	-	29,738	771,037
Equipment under finance lease	168,065	64,325	-	40,501	191,889
Greenhouse and packing equipment	17,194,956	4,618,340	-	992,116	20,821,180
Machinery and equipment	4,605,302	199,320	57,527	444,098	4,302,997
Capital projects in progress	1,988,041	(1,988,041)	-	-	-
	$ 31,299,612	$ 3,001,043	$ 57,527	$ 1,542,322	$ 32,700,806

	Opening net book value July 1, 2010	Additions	Disposals	Depreciation	Closing net book value June 30, 2011
Land	$ 5,940,000	$ -	$ -	$ -	$ 5,940,000
Land improvements	647,523	-	-	36,452	611,071
Buildings	802,622	20,188	-	30,633	792,177
Equipment under finance lease	222,731	-	-	54,666	168,065
Greenhouse and packing equipment	18,067,072	46,061	-	918,177	17,194,956
Machinery and equipment	4,375,621	672,908	20,500	422,727	4,605,302
Capital projects in progress	-	1,988,041	-	-	1,988,041
	$ 30,055,569	$ 2,727,198	$ 20,500	$ 1,462,655	$ 31,299,612

	Opening net book value July 1, 2009	Additions	Disposals	Depreciation	Closing net book value June 30, 2010
Land	$ 5,940,000	$ -	$ -	$ -	$ 5,940,000
Land improvements	582,641	102,397	-	37,515	647,523
Buildings	768,151	65,447	-	30,975	802,622
Equipment under finance lease	272,408	-	-	49,677	222,731
Greenhouse and packing equipment	18,618,873	395,369	-	947,170	18,067,072
Machinery and equipment	4,145,440	679,944	40,720	406,284	4,375,621
	$ 30,327,513	$ 1,240,397	$ 40,720	$ 1,471,621	$ 30,055,569

6. Deferred costs

		June 30, 2012		June 30, 2011		July 1, 2010
Deferred investment tax credit expenditures	**$**	**185,344**	$	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

		June 30, 2012		June 30, 2011		July 1, 2010
Opening balance - Goodwill	**$**	**522,665**	$	262,747	$	262,747
Goodwill from acquisition of Gennex Holdings Inc.		**-**		259,918		-
Closing balance - Goodwill	**$**	**522,665**	$	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 felt that the acquisition was 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. The balance on the line of credit as at June 30, 2012 was $826,344. This amount does not show on the financial statements as it has been offset against the cash balances.

9. Accounts payable and accruals

	June 30, 2012	June 30, 2011	July 1, 2010
Trade payables	**$ 811,236**	$ 1,263,160	$ 909,288
Other accruals	**527,585**	322,319	491,497
Customer deposits	**82,875**	41,018	65,091
	$ 1,421,696	$ 1,626,497	$ 1,465,876

10. Long-term debt

	June 30, 2012	June 30, 2011	July 1, 2010
FCC term loan #1, maturing July 1, 2016, carries interest at FCC's fixed rate of 4.45%, repayable with blended monthly payments of $67,597*	**$ 9,300,673**	$ 9,694,450	$ 10,069,797
FCC term loan #2, maturing June 1, 2013, carries interest at FCC's variable rate minus 0.5%, repayable with blended monthly payments of $74,053	**8,518,427**	9,142,897	9,712,988
FCC term loan #3, maturing July 1, 2016, carries interest at FCC's variable rate minus 0.5%, repayable with blended monthly payments of $17,360 commencing August 1, 2012	**3,000,000**	1,969,182	-
Deferred borrowing costs	**(90,749)**	(96,411)	(101,797)
	20,728,351	20,710,118	19,680,988
Less: current portion of term debt	**(1,149,134)**	(951,706)	(1,020,133)
Total term debt	**$ 19,579,217**	$ 19,758,412	$ 18,660,855

*On July 12, 2011 the Company converted FCC term loan #1 from a variable rate term to a fixed rate term. Given that all of the Company's debt was at variable rates, the Company felt it would be prudent to lessen its exposure to interest rate risk.

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 21).

10. Long-term debt (continued)

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

		June 30, 2012		June 30, 2011		July 1, 2010
2012	**$**	**-**	$	951,706	$	1,020,133
2013		**1,149,134**		988,317		1,047,553
2014		**1,200,352**		1,022,432		1,080,911
2015		**1,247,221**		1,058,797		1,113,778
2016		**1,294,159**		-		-
Thereafter		**15,928,234**		16,785,277		15,520,400
Less: deferred borrowing costs		**(90,749)**		(96,411)		(101,797)
	$	**20,728,351**	$	20,710,118	$	19,680,988

11. Obligations under finance leases

		June 30, 2012		June 30, 2011		July 1, 2010
Obligations under finance leases	**$**	**204,328**	$	125,569	$	180,720
Less: imputed interest		**24,808**		12,839		5,110
Present value of minimum lease payments		**179,520**		112,730		175,610
Less: current portion		**80,342**		57,636		138,002
	$	**99,178**	$	55,094	$	37,608

Future minimum lease payments for the next five years and thereafter are as follows:

		June 30, 2012		June 30, 2011		July 1, 2010
Less than one year	**$**	**80,342**	$	57,636	$	138,002
Between one and five years		**99,178**		55,094		37,608
More than five years		**-**		-		-
	$	**179,520**	$	112,730	$	175,610

Annualized interest rates range from 6.25% to 8.80%.

12. Deferred income tax liability

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

		2012		2011
Earnings (loss) before income taxes	$	159,353	$	43,502
Income tax rate		25.00%		25.00%
Income tax benefit computed at Canadian statutory rates		39,838		10,876
Permanent differences		1,340		9,639
Tax-based capital cost allowance in excess of depreciation		(27,178)		(100,960)
Temporary differences		(14,440)		(7,762)
Unrecognized tax loss		-		(88,208)
Effect of CRA assessment on SR&ED claims and losses carried forward		-		175,789
SR&ED claims		(411,988)		-
	$	(412,428)	$	(626)

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

		2012		2011
Future income tax assets:				
Donations	$	7,571	$	36,700
Finance fees and prepayment penalties		-		12,100
Scientific research and experimental development expenditures and tax credits		1,500,959		1,088,971
Non-capital losses carried forward		643,878		613,555
		2,152,408		1,751,326
Future income tax liabilities:				
Goodwill and intangibles, book values in excess of tax values		(46,254)		(39,901)
Deferred costs		(46,336)		(41,606)
Property, plant and equipment - book values in excess of tax values		(3,234,507)		(3,256,936)
Future income tax liability, net	$	(1,174,689)	$	(1,587,117)

12. Deferred income tax liability (continued)

The Company has accumulated non-capital losses for Canadian tax purposes of $2,575,511 that expire in various years as follows:

2014	$	1,812
2028		1,261,349
2029		366,963
2030		487,104
2031		446,691
2032		11,592
	$	2,575,511

The Company has claimed scientific research and experimental development investment tax credits for federal and provincial income tax purposes in the amount of $1,500,959 that may be used to reduce future income taxes payable and expire in various years commencing in 2015.

13. Capital stock

Authorized:

Unlimited common shares without par value

Issued:

	Number of Shares	Amount
Issued and outstanding as at June 30, 2012, June 30, 2011 and July 1, 2010	**25,535,933**	**$ 4,008,443**

(a) Summary of stock options outstanding and exercisable as at June 30, 2012:

Security type	Number outstanding	Price	Expiry date
Stock options	750,000	$ 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 common shares at a price of $0.18 per share. One-third of these options vested as of May 11, 2011, one-third vested 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, July 1, 2010	**$ 66,083**
Stock - based compensation for 2011	**32,760**
Balance, June 30, 2011	**98,843**
Stock - based compensation for 2012	**1,276**
Balance, June 30, 2012	**$ 100,119**

During the year ended June 30, 2012, the compensation cost of stock options vested was $1,276, which was included in administrative fees, wages and benefits expense.

14. 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, 2012, total managed capital was $14,225,539, compared to $13,652,482 as at June 30, 2011 and $13,575,594 as at July 1, 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, 2012. The Company is not subject to externally imposed capital requirements.

15. Changes in non-cash working capital

		2012		2011
Accounts receivable	**$**	**1,266,637**	$	(1,323,265)
Income taxes receivable		**-**		182,898
Inventories		**94,924**		(80,287)
Prepaid expenses and deposits		**443**		9,626
Accounts payable and accruals		**(204,801)**		160,621
	$	**1,157,203**	$	(1,050,407)

16. Financial instruments and risk management

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 June 30, 2012, its carrying value approximates its fair value.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Foreign currency risk

Foreign currency risk is the risk that variations in exchange rates between currencies will affect the Company's operating and financial results. 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.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations, investing and financing activities. At June 30, 2012, the Company's working capital balance was $1,669,808, which indicates an ability to meet short-term obligations.

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 has both fixed and floating interest rates. Approximately 56% of the long-term debt is 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.

16. Financial instruments and risk management (continued)

Credit risk

Credit risk is the risk that a party to one of the Company's financial instruments will fail to discharge an obligation and will cause the Company to incur a financial loss. 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.

17. Commitments

Operating leases

The Company has entered into automobile operating leases. The future minimum lease payments for the next five years and thereafter are as follows:

	June 30, 2012	June 30, 2011
Less than one year	**$ 17,448**	$ 11,575
Between one and five years	**45,074**	2,894
More than five years	**-**	-
	$ 62,522	$ 14,469

18. Related party transactions

The Company participated in transactions with related parties as follows:

		2012		2011
Management fees paid to a company with directors in common	$	**554,000**	$	554,000
Directors fees		**84,000**		91,000
Professional fees paid to companies owned by directors		**-**		12,388

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. During 2011, two directors provided 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.

19. Sales

			2012		2011
Sales	-propagation	$	**18,650,601**	$	17,661,218
	-cucumber production		**-**		378,633
	-other income		**52,462**		73,553
	-government assistance		**-**		22,500
	-currency gains (losses)		**194,679**		127,799
		$	**18,897,742**	$	18,263,703

20. Operating expenses by nature

		2012		2011
General operating	**$**	**1,001,874**	$	1,083,130
Employee wages and benefits		**1,186,185**		1,207,592
Depreciation		**1,542,322**		1,462,655
Provision for (recovery) bad debts		**(36,013)**		37,399
	$	**3,694,368**	$	3,790,776

21. Interest

			2012		2011
Interest expense	-operating line of credit	**$**	**18,989**	$	16,274
	-term debt		**855,585**		670,016
	-finance leases		**20,833**		10,808
	-deferred financing costs		**5,738**		5,386
	-other		**3,006**		2,087
		$	**904,151**	$	704,571

22. Segmented information

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

	2012		
	Assets	**Sales**	**Property, Plant and Equipment**
Canada	**$ 37,729,795**	**$ 8,805,829**	**$ 32,700,806**
United States	**-**	**10,091,913**	**-**
	$ 37,729,795	**$ 18,897,742**	**$ 32,700,806**

	2011		
	Assets	Sales	Property, Plant and Equipment
Canada	$ 37,688,944	$ 8,671,719	$ 31,299,612
United States	-	9,591,984	-
	$ 37,688,944	$ 18,263,703	$ 31,299,612

Sales to one customer in the United States constitute 43.7% of total sales.

23. Transition to International Financial Reporting Standards ("IFRS")

These are the Company's first annual financial statements prepared in accordance with IFRS. The accounting policies in Note 2 have been applied.

In preparing the opening IFRS financial statements, the Company has adjusted amounts reported previously in financial statements prepared in accordance with GAAP. An explanation of how the transition from GAAP to IFRS has affected the Company's financial position is set out in the following tables.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company is not applying any optional exemptions on first time adoption.

23. Transition to International Financial Reporting Standards (“IFRS”) (continued)

Reconciliation of assets, liabilities and equity as at July 1, 2010

	GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Current			
Cash and cash equivalents	$ 2,342,005	$ -	$ 2,342,005
Accounts receivable	1,962,274	-	1,962,274
Income taxes receivable	182,898	-	182,898
Inventories	1,604,118	-	1,604,118
Prepaid expenses and deposits	92,676	-	92,676
	6,183,971	-	6,183,971
Property, plant and equipment	26,521,781	3,533,788	30,055,569
Deferred costs	166,422	-	166,422
Goodwill	262,747	-	262,747
	$ 33,134,921	$ 3,533,788	$ 36,668,709
LIABILITIES			
Current			
Accounts payable and accruals	$ 1,465,876	$ -	$ 1,465,876
Current portion of long-term debt	1,020,133	-	1,020,133
Current portion of obligations under finance leases	138,002	-	138,002
	2,624,011	-	2,624,011
Long-term debt	18,660,855	-	18,660,855
Obligations under finance leases	37,608	-	37,608
Deferred income tax liability	937,194	833,447	1,770,641
	22,259,668	833,447	23,093,115
SHAREHOLDERS' EQUITY			
Capital stock	4,008,443	-	4,008,443
Contributed surplus	66,083	-	66,083
Retained earnings	6,800,727	2,700,341	9,501,068
	10,875,253	2,700,341	13,575,594
	$ 33,134,921	$ 3,533,788	$ 36,668,709

23. Transition to International Financial Reporting Standards ("IFRS") (continued)

Reconciliation of assets, liabilities and equity as at June 30, 2011

	GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Current			
Cash and cash equivalents	$ 647,251	$ -	$ 647,251
Accounts receivable	3,285,539	-	3,285,539
Inventories	1,684,405	-	1,684,405
Prepaid expenses and deposits	83,050	-	83,050
	5,700,245	-	5,700,245
Property, plant and equipment	27,765,824	3,533,788	31,299,612
Deferred costs	166,422	-	166,422
Goodwill	522,665	-	522,665
	$ 34,155,156	$ 3,533,788	$ 37,688,944
LIABILITIES			
Current			
Accounts payable and accruals	$ 1,626,497	$ -	$ 1,626,497
Current portion of long-term debt	951,706	-	951,706
Current portion of obligations under finance leases	57,636	-	57,636
	2,635,839	-	2,635,839
Long-term debt	19,758,412	-	19,758,412
Obligations under finance leases	55,094	-	55,094
Deferred income tax liability	753,670	833,447	1,587,117
	23,203,015	833,447	24,036,462
SHAREHOLDERS' EQUITY			
Capital stock	4,008,443	-	4,008,443
Contributed surplus	98,843	-	98,843
Retained earnings	6,844,855	2,700,341	9,545,196
	10,952,141	2,700,341	13,652,482
	$ 34,155,156	$ 3,533,788	$ 37,688,944

23. Transition to International Financial Reporting Standards ("IFRS") (continued)

Reconciliation of statement of comprehensive income (loss) for the year ended June 30, 2011

	GAAP	Effect of transition To IFRS	IFRS
Sales	$ 18,263,703	$ -	$ 18,263,703
Cost of sales	13,724,854	-	13,724,854
Gross margin	4,538,849	-	4,538,849
Expenses			
Selling, general and administrative expenses	3,790,776	-	3,790,776
Earnings from operations	748,073	-	748,073
Interest	704,571	-	704,571
Earnings before income taxes	43,502	-	43,502
Provision for (recovery of) income taxes	(626)	-	(626)
Net income and comprehensive income for the period	44,128	-	44,128
Retained earnings, beginning of the period	6,800,727	2,700,341	9,501,068
Retained earnings, end of the period	$ 6,844,855	$ 2,700,341	$ 9,545,196
Basic and diluted earnings (loss) per share	$ 0.00	$ -	$ 0.00
Weighted average number of common shares outstanding	25,535,933	25,535,933	25,535,933

Reconciliation of statement of cash flows

The transition from GAAP to IFRS had no significant impact on cash flows generated by the Company.

23. Transition to International Financial Reporting Standards ("IFRS") (continued)

Notes to reconciliations

Property, plant and equipment – revaluation

IFRS requires an entity to make a policy choice to carry property, plant and equipment ("PPE") at historical cost method or revaluation (fair value) method. This policy choice is made for each class of assets included in PPE. The Company has elected to use the revaluation (fair value) method for its land, and historical cost method for all other items of PPE. Additional details are included in Note 2.

Fair values of land are determined by reports provided by Farm Credit Canada, Canada's largest agriculture term lender. These reports assess farmland values using historical sales.

As a result of the revaluation of land, the fair value of land was assessed at $5,940,000. This resulted in an increase of $3,533,788 to the value of land as recorded under GAAP. The revaluation also resulted in an increase to deferred income tax liability of $833,447. Both amounts were transferred to retained earnings – an increase in retained earnings of $3,533,788 and a decrease in retained earnings of $833,447, resulting in a net increase to retained earnings of $2,700,341.