BEVO AGRO INC.

CONSOLIDATED
FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2013 AND 2012

INDEPENDENT AUDITOR'S 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, 2013 and June 30, 2012 and the consolidated statements of operations and comprehensive income, cash flows and changes in equity for the years ended June 30, 2013 and June 30, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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CHARTERED ACCOUNTANTS LLP

Independent Auditor's Report to the Shareholders of Bevo Agro Inc. *(continued)*

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, 2013 and June 30, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

White Rock, British Columbia
September 20, 2013

CHARTERED ACCOUNTANTS LLP

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

	June 30, 2013	June 30, 2012
ASSETS		
Current		
Cash and cash equivalents	**$ 331,195**	$ 629,990
Accounts receivable *[Note 3]*	**2,084,184**	2,018,902
Inventories – supplies inventory *[Note 4]*	**1,268,481**	891,722
Inventories – Biological assets *[Note 4]*	**614,448**	697,759
Prepaid expenses and deposits	**57,573**	82,607
	4,355,881	4,320,980
Property, plant and equipment *[Note 5]*	**31,584,236**	32,700,806
Deferred costs *[Note 6]*	**-**	185,344
Goodwill *[Note 7]*	**522,665**	522,665
	$ 36,462,782	$ 37,729,795
LIABILITIES		
Current		
Accounts payable and accruals *[Note 9]*	**$ 1,220,083**	$ 1,421,696
Current portion of long-term debt *[Note 10]*	**1,186,530**	1,149,134
Current portion of obligations under finance leases *[Note 11]*	**26,872**	80,342
	2,433,485	2,651,172
Long-term debt *[Note 10]*	**18,393,565**	19,579,217
Obligations under finance leases *[Note 11]*	**72,306**	99,178
Deferred income tax liability *[Note 12]*	**1,149,099**	1,174,689
	22,048,455	23,504,256
SHAREHOLDERS' EQUITY *[Note 14]*		
Capital stock *[Note 13]*	**4,008,443**	4,008,443
Contributed surplus *[Note 13]*	**104,374**	100,119
Retained earnings	**10,301,510**	10,116,977
	14,414,327	14,225,539
	$ 36,462,782	$ 37,729,795

Commitments *[Note 17]*

Authorized for issue by the board of directors on September 20, 2013:

"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
YEARS ENDED JUNE 30 (Canadian $)

	2013	2012
Sales ***[Note 19]***	$ 20,587,204	$ 18,897,742
Cost of sales	15,504,138	14,139,870
Gross margin	5,083,066	4,757,872
Expenses		
Selling, general and administrative expenses *[Note 20]*	4,053,398	3,694,368
Income from operations	1,029,668	1,063,504
Interest expense *[Note 21]*	(890,049)	(904,151)
Gain on disposal of assets	19,324	-
Income before income taxes	158,943	159,353
Recovery of income taxes – Deferred	(25,590)	(412,428)
Net income and comprehensive income for the year	184,533	571,781
Retained earnings, beginning of the year	10,116,977	9,545,196
Retained earnings, end of the year	$ 10,301,510	$ 10,116,977
Basic and diluted earnings (loss) per share	$ 0.01	$ 0.02
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 $)

	2013	2012
Cash flows from (used by) operating activities		
Net income and comprehensive income for the year	$ 184,533	$ 571,781
Items not involving cash		
Depreciation of property, plant and equipment	1,580,709	1,542,322
Impairment loss on deferred costs	185,344	-
Stock-based compensation	4,255	1,276
Deferred income taxes (recovery)	(25,590)	(412,428)
Gain on disposal of assets	(19,324)	-
Changes in non-cash working capital *[Note 15]*	(535,309)	1,157,203
	1,374,618	2,860,154
Cash flows from (used by) investing activities		
Acquisition of property, plant and equipment	(517,816)	(3,001,043)
Proceeds on disposal of property, plant and equipment	73,001	57,528
Deferred ITC expenditures *[Note 6]*	-	(18,922)
	(444,815)	(2,962,437)
Cash flows from (used by) financing activities		
Long-term debt repayments	(1,148,256)	(1,012,585)
Advances under long-term debt	-	1,030,818
Advances (repayments) of obligations under finance leases	(80,342)	66,789
	(1,228,598)	85,022
Increase (decrease) in cash	(298,795)	(17,261)
Cash and cash equivalents, beginning of year	629,990	647,251
Cash and cash equivalents, end of year	$ 331,195	$ 629,990
Supplementary information:		
Interest paid *[Note 21]*	$ 884,069	$ 898,413
Income taxes paid	$ -	$ -

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
Balance at June 30, 2012	**$ 4,008,443**	**$ 100,119**	**$ 10,116,977**	**$ 14,225,539**
Net income and comprehensive income for the year	**-**	**-**	**184,533**	**184,533**
Stock-based compensation	**-**	**4,255**	**-**	**4,255**
Balance at June 30, 2013	**$ 4,008,443**	**$ 104,374**	**$ 10,301,510**	**$ 14,414,327**

	Capital stock	Contributed surplus	Retained earnings	Total equity
Balance at June 30, 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

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's principal place of business is located at 7170 Glover Road, Milner, British Columbia, Canada, V0X 1T0.

The Company operates 39 acres of propagation greenhouse facilities on 98 acres of land in Milner, 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 and grasses. The Company markets its products to established greenhouse growers and nurseries throughout North America.

2. Significant accounting policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. The accounting policies set out below have been applied consistently to all periods presented.

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.

2. Significant accounting policies (continued)

Use of estimates and judgements

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 management's judgement include the useful lives of property, plant and equipment, calculation of deferred income taxes and the likelihood of realization of same, calculation of fair value of biological assets, recovery of accounts receivable, fair value of financial instruments, and the assumptions used in the calculation of stock-based compensation expense. 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.

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.

2. Significant accounting policies (continued)

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. Land is revalued every three years, with the next valuation to take place June 2014.

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.

As land is assumed to have an unlimited useful life, it is not depreciated. 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% -10%
Greenhouse, shade and packaging equipment	5%
Machinery and equipment	5 - 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, 2013 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, 2013 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, 2013 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.

Future accounting changes

The IASB periodically issues new standards and amendments to existing standards. The following new accounting standards are those that the Company considers relevant to the Company. It is not intended to be a complete list of new pronouncements made. The Company has not yet assessed the impact of these standards or determined whether it will adopt these standards early.

IFRS 9 – Financial Instruments - Addresses the classification, measurement and de-recognition of financial assets and financial liabilities, and is effective January 1, 2015 with earlier adoption permitted.

3. Accounts receivable

		June 30, 2013		June 30, 2012
Trade receivables	$	2,023,460	$	2,004,395
HST receivable		60,724		14,507
	$	2,084,184	$	2,018,902

4. Inventories

		June 30, 2013		June 30, 2012
Supplies	$	1,268,481	$	891,722
Biological assets		614,448		697,759
	$	1,882,929	$	1,589,481

5. Property, plant and equipment

	Cost	Accumulated Depreciation	Net book value June 30, 2013
Land	$ 5,940,000	$ -	$ 5,940,000
Land improvements	1,099,717	370,966	728,751
Buildings	1,122,287	379,895	742,391
Equipment under finance lease	306,111	233,890	72,221
Greenhouse, shade and packing equipment	33,739,087	13,942,614	19,796,473
Machinery and equipment	10,038,088	5,733,689	4,304,400
	$ 52,245,290	$ 20,661,054	$ 31,584,236

	Cost	Accumulated Depreciation	Net book value June 30, 2012
Land	$ 5,940,000	$ -	$ 5,940,000
Land improvements	1,006,660	332,957	673,703
Buildings	1,122,287	351,250	771,037
Equipment under finance lease	464,079	272,190	191,889
Greenhouse, shade and packing equipment	33,707,937	12,886,757	20,821,180
Machinery and equipment	9,832,717	5,529,720	4,302,997
	$ 52,073,680	$ 19,372,874	$ 32,700,806

5. Property, plant and equipment (continued)

	Net book value June 30, 2012	**Additions/ reclassifications**	**Disposals**	**Depreciation**	**Net book value June 30, 2013**
Land	**$ 5,940,000**	**$ -**	**$ -**	**$ -**	**$ 5,940,000**
Land improvements	**673,703**	**93,057**	**-**	**38,009**	**728,751**
Buildings	**771,037**	**-**	**-**	**28,646**	**742,391**
Equipment under finance lease	**191,889**	**(101,613)**	**-**	**18,055**	**72,221**
Greenhouse and packing equipment	**20,821,180**	**31,150**	**-**	**1,055,857**	**19,796,473**
Machinery and equipment	**4,302,997**	**495,222**	**53,677**	**440,142**	**4,304,400**
	$ 32,700,806	**$ 517,816**	**$ 53,677**	**$ 1,580,709**	**$ 31,584,236**

	Net book value June 30, 2011	Additions/ reclassifications	Disposals	Depreciation	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

6. Deferred costs

	June 30, 2013	June 30, 2012
Deferred investment tax credit expenditures – beginning of year	$ 185,344	$ 185,344
Less impairment loss included in selling, general and administrative expenses	(185,344)	-
Deferred investment tax credit expenditures – end of year	$ -	$ 185,344

Deferred investment tax credit (ITC) expenditures consist of costs incurred for the submission of Scientific Research & Experimental Development claims.

7. Goodwill

	June 30, 2013	June 30, 2012
Goodwill	$ 522,665	$ 522,665

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.

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 0.50%, is due on demand, and is secured by a first charge on accounts receivable. There was no balance on the line of credit as at June 30, 2013.

9. Accounts payable and accruals

	June 30, 2013	June 30, 2012
Trade payables	$ 761,459	$ 811,236
Other accruals	440,768	527,585
Customer deposits	17,856	82,875
	$ 1,220,083	$ 1,421,696

10. Long-term debt

	June 30, 2013	June 30, 2012
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	$ 8,890,796	$ 9,300,673
FCC term loan #2, maturing July 1, 2018, carries interest at FCC's fixed rate of 3.99%, repayable with blended monthly payments of $78,995	7,870,855	8,518,427
FCC term loan #3, maturing July 1, 2016, carries interest at FCC's variable rate minus 0.5% (currently 3.5%), repayable with blended monthly payments of $17,360	2,903,212	3,000,000
Deferred borrowing costs	(84,768)	(90,749)
Total long-term debt	19,580,095	20,728,351
Less: current portion of long-term debt	(1,186,530)	(1,149,134)
Long-term debt	$ 18,393,565	$ 19,579,217

The Farm Credit Canada ("FCC") term loans are secured by a general security agreement, first mortgages on the Company land and buildings, assignments of insurance and a limited guarantee from a related company.

The deferred borrowing costs are amortized as the principal on the loan is repaid and are included as interest expense (Note 21).

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

	June 30, 2013	June 30, 2012
2013	$ -	$ 1,149,134
2014	1,186,530	1,200,352
2015	1,227,797	1,247,221
2016	1,277,367	1,294,159
2017	1,332,775	-
Thereafter	14,640,394	15,928,234
Less: deferred borrowing costs	(84,768)	(90,749)
	$ 19,580,095	$ 20,728,351

11. Obligations under finance leases

		June 30, 2013		June 30, 2012
Obligations under finance leases	$	110,391	$	204,328
Less: imputed interest		11,213		24,808
Present value of minimum lease payments		99,178		179,520
Less: current portion		26,872		80,342
Long-term portion	$	72,306	$	99,178

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

		June 30, 2013		June 30, 2012
Less than one year	$	26,872	$	80,342
Between one and five years		72,306		99,178
More than five years		-		-
	$	99,178	$	179,520

Annualized interest rate is 6.25%.

12. Deferred income tax liability

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

		2013		2012
Earnings (loss) before income taxes	$	158,943	$	159,353
Income tax rate		25.00%		25.00%
Income tax benefit computed at Canadian statutory rates		39,736		39,838
Permanent differences		48,264		1,340
Temporary differences		(113,590)		(41,618)
SR&ED claims		-		(411,988)
Recovery of income taxes - deferred	$	(25,590)	$	(412,428)

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

		2013		2012
Future income tax assets:				
Donations	$	19,144	$	7,571
Scientific research and experimental development expenditures and tax credits		1,500,959		1,500,959
Goodwill and intangibles, tax values in excess of book values		78,252		-
Non-capital losses carried forward		767,978		643,878
		2,366,333		2,152,408
Future income tax liabilities:				
Goodwill and intangibles, book values in excess of tax values		-		(46,254)
Deferred costs		(46,336)		(46,336)
Property, plant and equipment - book values in excess of tax values		(3,469,096)		(3,234,507)
Future income tax liability, net	$	(1,149,099)	$	(1,174,689)

12. Deferred income tax liability (continued)

The Company has accumulated non-capital losses for Canadian tax purposes of $3,070,907 that expire in various years as follows:

2014	$	1,248
2028		1,261,349
2029		366,963
2030		414,462
2031		386,343
2032		11,592
2033		628,950
	$	3,070,907

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 2025.

13. Capital stock

Authorized:

Unlimited common shares without par value

Issued:

	Number of Shares	Amount
Issued and outstanding as at June 30, 2013 and 2012	25,535,933	$ 4,008,443

(a) Summary of stock options outstanding and exercisable as at June 30, 2013:

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 vested 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, 2011	$ 98,843
Stock - based compensation for 2012	1,276
Balance, June 30, 2012	100,119
Stock - based compensation for 2013	4,255
Balance, June 30, 2013	$ 104,374

During the year ended June 30, 2013, the compensation cost of stock options vested was $4,255, which was included in expenses.

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, 2013, total managed capital was $14,414,327, compared to $14,225,539 as at June 30, 2012.

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 capital assets for future corporate growth.

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, 2013. The Company is not subject to externally imposed capital requirements.

15. Changes in non-cash working capital

	2013	2012
Accounts receivable	**$ (65,282)**	$ 1,266,637
Inventories	**(293,448)**	94,924
Prepaid expenses and deposits	**25,034**	443
Accounts payable and accruals	**(201,613)**	(204,801)
	$ (535,309)	$ 1,157,203

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, 2013, its carrying value approximates its fair value.

The following classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are as follows:

- Level 1- Quotes prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – Inputs for the asset or liability that are not based on observable market data

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.

At June 30, 2013, the Canadian/U.S. foreign exchange rate was CA$1.00 = US$0.9508 (2012 – US$0.9810).

The Company currently has a U.S. dollar bank account balance of $213,621, U.S. dollar accounts receivables of $1,035,551 and U.S dollar accounts payables of $217,666. A change of $0.10 in the Canadian dollar would not have a significant impact on the Company’s income and comprehensive income for the year.

16. Financial instruments and risk management (continued)

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, 2013, the Company's working capital balance was $1,922,396, which indicates an ability to meet short-term obligations.

The following are the contractual maturities of financial liabilities as at June 30, 2013:

	Total	< 1 year	1-3 years	> 3 years
Accounts payable and accruals	$ 1,220,083	$ 1,220,083	$ -	$ -
Obligations under finance leases	99,178	26,872	72,306	-
Long-term debt	19,580,095	1,186,530	3,837,939	14,555,626
	$ 20,899,356	$ 2,433,485	$ 3,910,245	$ 14,555,626

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash from sales. If resources and operations fail to generate sufficient cash to satisfy its obligations, the Company may seek to arrange debt or other financing.

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 primarily at fixed interest rates. However, approximately 15% 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. A plus or minus 1% change in market interest rates would not have a significant effect on the Company's income and comprehensive income for the year.

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 cash equivalents and accounts receivable. Cash and cash equivalents are placed with a major Canadian financial institution. Accounts receivable are from geographically dispersed customers and substantial portions are from customers with whom long-term business relationships have been established.

17. Commitments

Operating leases

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

		June 30, 2013		June 30, 2012
Less than one year	**$**	**19,192**	$	17,448
Between one and five years		**39,984**		45,074
More than five years		**-**		-
	$	**59,176**	$	62,522

18. Related party transactions

The Company participated in transactions with related parties as follows:

		2013		2012
Management fees paid to a company that owns more than 50% of the outstanding shares	**$**	**554,000**	$	554,000
Directors fees		**72,500**		84,000

The president and vice-president provide management services to the Company through their management company. The management fees are approved annually by the Board of Directors.

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

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

			2013		2012
Sales	-propagation	**$**	**20,138,127**	$	18,522,905
	-other income		**449,077**		374,837
		$	**20,587,204**	$	18,897,742

20. Selling, general and administrative expenses

		2013		2012
General operating	**$**	**1,259,385**	$	1,001,874
Employee wages and benefits		**1,213,304**		1,186,185
Depreciation		**1,580,709**		1,542,322
Provision for (recovery) bad debts		**-**		(36,013)
	$	**4,053,398**	$	3,694,368

21. Interest expense

			2013		2012
Interest expense	-operating line of credit	**$**	**40,545**	$	18,989
	-long-term debt		**827,401**		855,585
	-finance leases		**13,603**		20,833
	-deferred financing costs		**5,980**		5,738
	-other		**2,520**		3,006
		$	**890,049**	$	904,151

22. Segmented information

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

				2013				
		Assets		**Property, Plant and Equipment**		**Goodwill**		**Sales**
Canada	$	36,462,782	$	31,584,236	$	522,665	$	9,703,700
United States		-		-		-		10,883,504
	$	36,462,782	$	31,584,236	$	522,665	$	20,587,204

				2012				
		Assets		Property, Plant and Equipment		Goodwill		Sales
Canada	$	37,729,795	$	32,700,806	$	522,665	$	8,805,829
United States		-		-		-		10,091,913
	$	37,729,795	$	32,700,806	$	522,665	$	18,897,742

Sales to one customer in the United States constitute 44% of total sales.