

BEVO AGRO INC.

**CONSOLIDATED
FINANCIAL STATEMENTS**

**YEARS ENDED
JUNE 30, 2014 AND 2013**

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, 2014 and June 30, 2013 and the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years ended June 30, 2014 and June 30, 2013, 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 as issued by the International Accounting Standards Board, 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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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, 2014 and June 30, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.



White Rock, British Columbia
September 26, 2014

CHARTERED ACCOUNTANTS LLP

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

	June 30, 2014	June 30, 2013
ASSETS		
Current		
Cash and cash equivalents [Note 7]	\$ 1,071,653	\$ 331,195
Accounts receivable [Notes 3 and 7]	1,539,119	2,084,184
Inventories – supplies inventory [Note 4]	1,495,822	1,268,481
Inventories – biological assets [Note 4]	943,833	614,448
Prepaid expenses and deposits	159,515	57,573
	5,209,942	4,355,881
Property, plant and equipment [Note 5]	32,681,474	31,584,236
Goodwill [Note 6]	522,665	522,665
	\$ 38,414,081	\$ 36,462,782
LIABILITIES		
Current		
Accounts payable and accruals [Note 8]	\$ 2,321,291	\$ 1,220,083
Current portion of long-term debt [Note 9]	1,378,682	1,186,530
Current portion of obligations under finance leases [Note 10]	28,601	26,872
	3,728,574	2,433,485
Long-term debt [Note 9]	17,165,131	18,393,565
Obligations under finance leases [Note 10]	43,705	72,306
Deferred income tax liability [Note 11]	1,581,099	1,149,099
	22,518,509	22,048,455
SHAREHOLDERS' EQUITY [Note 13]		
Capital stock [Note 12]	4,008,443	4,008,443
Contributed surplus [Note 12]	104,374	104,374
Revaluation surplus [Note 5]	742,500	-
Retained earnings	11,040,255	10,301,510
	15,895,572	14,414,327
	\$ 38,414,081	\$ 36,462,782

Commitments [Note 16]

Subsequent event [Note 23]

Authorized for issue by the board of directors on September 26, 2014:

“Jack Benne”

Jack Benne, Director

“John Hoekstra”

John Hoekstra, Director

BEVO AGRO INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

YEARS ENDED JUNE 30 (Expressed in Canadian \$)

	2014	2013
Sales [Note 18]	\$ 23,309,085	\$ 20,587,204
Cost of sales	17,390,344	15,504,138
Gross margin	5,918,741	5,083,066
Expenses		
Selling, general and administrative expenses [Note 19]	4,153,847	4,053,398
Income from operations	1,764,894	1,029,668
Other income (expenses)		
Interest expense [Note 20]	(861,038)	(890,049)
Gain on disposal of assets	19,389	19,324
Income before income taxes	923,245	158,943
Provision for (recovery of) income taxes – deferred	184,500	(25,590)
Net income for the year	738,745	184,533
Other comprehensive income:		
Gain on revaluation of land [Note 5]	742,500	-
Net income and comprehensive income for the year	1,481,245	184,533
Basic and diluted earnings per share [Note 22]	\$ 0.03	\$ 0.01
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 (Expressed in Canadian \$)

	2014	2013
Cash flows from (used by) operating activities		
Net income for the year	\$ 738,745	\$ 184,533
Items not involving cash		
Depreciation of property, plant and equipment	1,575,427	1,580,709
Impairment loss on deferred costs	-	185,344
Stock-based compensation	-	4,255
Deferred income tax expense (recovery)	184,500	(25,590)
Gain on disposal of assets	(19,389)	(19,324)
Changes in non-cash working capital <i>[Note 14]</i>	987,605	(535,309)
	3,466,888	1,374,618
Cash flows from (used by) investing activities		
Acquisition of property, plant and equipment	(1,692,103)	(517,816)
Proceeds on disposal of property, plant and equipment	28,827	73,001
	(1,663,276)	(444,815)
Cash flows from (used by) financing activities		
Long-term debt repayments	(1,036,282)	(1,148,256)
Advances (repayments) of obligations under finance leases	(26,872)	(80,342)
	(1,063,154)	(1,228,598)
Increase (decrease) in cash	740,458	(298,795)
Cash and cash equivalents, beginning of year	331,195	629,990
Cash and cash equivalents, end of year	\$ 1,071,653	\$ 331,195
Supplementary information:		
Interest paid <i>[Note 20]</i>	\$ 854,736	\$ 884,069
Income taxes paid	\$ -	\$ -

See accompanying Notes to the Financial Statements

BEVO AGRO INC.**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

YEARS ENDED JUNE 30 (Expressed in Canadian \$)

	Capital stock	Contributed surplus	Revaluation Surplus	Retained earnings	Total equity
Balance at June 30, 2013	\$ 4,008,443	\$ 104,374	\$ -	\$ 10,301,510	\$ 14,414,327
Net income and comprehensive income for the year	-	-	742,500	738,745	1,481,245
Balance at June 30, 2014	\$ 4,008,443	\$ 104,374	\$ 742,500	\$ 11,040,255	\$ 15,895,572

	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

See accompanying Notes to the Financial Statements

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

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”) 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. (Milner, BC), Bevo Energy Inc. (Milner, BC), Bevo Agro Inc. (Nevada) and Bevo Farms Inc. (Arizona). Bevo Energy Inc. (Milner, BC), Bevo Agro Inc. (Nevada) and Bevo Farms Inc. (Arizona) are inactive. All significant intercompany balances and transactions have been eliminated upon consolidation.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

2. Significant accounting policies (continued)

Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements, 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, choice of revaluation frequency on property, plant and equipment measured at revalued amounts, 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, other than biological assets, 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) are measured at fair value less costs to sell.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

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 substantively enacted. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Offsetting of deferred tax assets and liabilities occurs when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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.

Trade receivables

Trade receivables are measured at amortized cost net of allowance for uncollectible amounts. The Company determines its allowance based on a number of factors, including length of time an account is past due, the customer's previous loss history, and the ability of the customer to pay its obligation to the Company. The Company writes off receivables when they become uncollectible.

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, the amount of revenue can be reliably measured, the costs and possible return of goods can be reliably measured, there is no continuing management involvement or control with the goods, 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.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

2. Significant accounting policies (continued)

Property, plant and equipment

Land held for use in production or administration is accounted for using the revaluation model and 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 2017.

Any revaluation surplus arising upon appraisal of land is recognized in other comprehensive income and credited to “revaluation surplus” in equity. Any revaluation decrease arising upon appraisal of land is charged to other comprehensive loss and, to the extent of any credit balance existing, debited to revaluation surplus in equity with the excess recognized in net income or loss.

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.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

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 with indefinite useful lives are tested for impairment on an annual basis or when events occur that may indicate impairment.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

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, "Agriculture", 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 price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Cost may approximate fair value when the biological asset is at the early stage of its life and little biological transformation has taken place since the initial cost was incurred.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

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, 2014 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, 2014 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, 2014 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 FVTPL, 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.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

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).

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 now or in the future. It is not intended to be a complete list of new pronouncements made.

IFRS 9 – Financial Instruments - Addresses the classification, measurement and de-recognition of financial assets and financial liabilities, and is effective January 1, 2017, with earlier adoption permitted. IFRS 9 is not expected to have a material impact on the amounts recorded in the consolidated financial statements of the Company.

Adoption of new accounting standards

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

IFRS 10 – Consolidated Financial Statements – Establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The adoption of IFRS 10 did not have an impact on the Company's consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities – Establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements and associates. The adoption of IFRS 12 did not have an impact on the Company's consolidated financial statements.

IFRS 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. The adoption of IFRS 13 did not have a material impact on the Company's consolidated financial statements.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

3. Accounts receivable

	June 30, 2014	June 30, 2013
Trade receivables	\$ 1,489,376	\$ 2,023,460
GST receivable	49,743	60,724
	\$ 1,539,119	\$ 2,084,184

4. Inventories

	June 30, 2014	June 30, 2013
Supplies	\$ 1,495,822	\$ 1,268,481
Biological assets	943,833	614,448
	\$ 2,439,655	\$ 1,882,929

Biological assets are measured at fair value less costs to sell, except when the fair value cannot be measured reliably. Since little biological transformation has taken place and all biological assets are at the early stage of their life, the Company has measured biological assets at cost, which approximates fair value.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

5. Property, plant and equipment

	Cost	Accumulated Depreciation	Net book value June 30, 2014
Land	\$ 6,930,000	\$ -	\$ 6,930,000
Land improvements	1,204,215	412,026	792,189
Buildings	1,141,979	408,275	733,704
Equipment under finance lease	306,111	248,334	57,777
Greenhouse, shade and packing equipment	33,900,814	14,922,724	18,978,090
Machinery and equipment	10,933,820	6,097,659	4,836,161
Capital projects in progress	353,553	-	353,553
	\$ 54,770,492	\$ 22,089,018	\$ 32,681,474

Land is the only item of property, plant and equipment that is stated at fair values. The Company has a policy to revalue land every three years. At June 30, 2014 land was revalued using an external revaluation method. Land was determined to have increased in value from \$60,000 to \$70,000 per acre. As a result, land was revalued from \$5,940,000 to \$6,930,000. The revaluation surplus is recognized in other comprehensive income and credited to "revaluation surplus" in equity. A portion of the revaluation surplus is subject to deferred income taxes and is credited to deferred income tax liability.

	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

BEVO AGRO INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

5. Property, plant and equipment (continued)

	Net book value June 30, 2013	Additions/ revaluations	Disposals	Depreciation	Net book value June 30, 2014
Land	\$ 5,940,000	\$ 990,000	\$ -	\$ -	\$ 6,930,000
Land improvements	728,751	104,498	-	41,060	792,189
Buildings	742,391	19,692	-	28,379	733,704
Equipment under finance lease	72,221	-	-	14,444	57,777
Greenhouse and packing equipment	19,796,473	203,186	-	1,021,569	18,978,090
Machinery and equipment	4,304,400	1,011,174	9,438	469,975	4,836,161
Capital projects in progress	-	353,553	-	-	353,553
	\$ 31,584,236	\$ 2,682,103	\$ 9,438	\$ 1,575,427	\$ 32,681,474

	Net book value June 30, 2012	Additions/ revaluations	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

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

6. Goodwill

	June 30, 2014	June 30, 2013
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.

In assessing goodwill for impairment for June 30, 2014, the Company compared the recoverable amount, using the value in use method, to the carrying amount of each cash generating unit. The recoverable amount of each cash generating unit was based on budgeted cash flows for the next five years, a terminal value based on a long-term growth rate of 3%, and a discount rate of 10%

7. 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. The balance on the line of credit as at June 30, 2014 was \$1,718,505. This amount does not show on the financial statements as it has been offset against the cash balances.

8. Accounts payable and accruals

	June 30, 2014	June 30, 2013
Trade payables	\$ 1,558,748	\$ 761,459
Accruals	550,707	440,768
Customer deposits	211,836	17,856
	\$ 2,321,291	\$ 1,220,083

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. Long-term debt

	June 30, 2014	June 30, 2013
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	\$ 8,463,106	\$ 8,890,796
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	7,217,904	7,870,855
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	2,794,051	2,903,212
BMO demand loan, maturing January 3, 2024, carries interest at BMO's Prime rate plus 0.5% (currently 3.5%), repayable with blended monthly payments of \$1,520	147,218	-
Deferred borrowing costs	(78,466)	(84,768)
Total long-term debt	18,543,813	19,580,095
Less: current portion of long-term debt	(1,378,682)	(1,186,530)
Long-term portion of long-term debt	\$ 17,165,131	\$ 18,393,565

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

The Bank of Montreal ("BMO") demand loan is secured by equipment and accounts receivable.

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

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

9. Long-term debt (continued)

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

	June 30, 2014
2015	\$ 1,378,682
2016	1,277,663
2017	10,848,735
2018	757,493
Thereafter	4,359,706
Less: deferred borrowing costs	(78,466)
	\$ 18,543,813

10. Obligations under finance leases

	June 30, 2014	June 30, 2013
Obligations under finance leases	\$ 78,082	\$ 110,391
Less: imputed interest	5,776	11,213
Present value of minimum lease payments	72,306	99,178
Less: current portion	28,601	26,872
Long-term portion	\$ 43,705	\$ 72,306

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

	June 30, 2014
Less than one year	\$ 28,601
Between one and five years	43,705
More than five years	-
	\$ 72,306

Annualized interest rate is 6.25%.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

11. Deferred income tax liability

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

	2014	2013
Earnings before income taxes	\$ 923,245	\$ 158,943
Income tax rate	26.00%	25.00%
Income tax expense computed at Canadian statutory rates	240,044	39,736
Permanent differences	740	48,264
Temporary differences	(56,284)	(113,590)
Provision for (recovery of) income taxes – deferred	\$ 184,500	\$ (25,590)

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

	2014	2013
Deferred income tax assets:		
Donations	\$ -	\$ 19,144
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	75,928	78,252
Non-capital losses carried forward	727,785	767,978
	2,304,672	2,366,333
Deferred income tax liabilities:		
Deferred costs	-	(46,336)
Property, plant and equipment - book values in excess of tax values	(3,885,771)	(3,469,096)
Deferred income tax liability, net	\$ (1,581,099)	\$ (1,149,099)

BEVO AGRO INC.

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11. Deferred income tax liability (continued)

The Company has accumulated non-capital losses for Canadian tax purposes of \$2,722,086 that expire in various years as follows:

2028	\$	889,558
2029		366,963
2030		400,710
2031		377,110
2032		11,592
2033		643,851
2034		32,302
	\$	2,772,086

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.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. Capital stock

Authorized:

Unlimited common shares without par value

Issued:

	Number of Shares	Amount
Issued and outstanding as at June 30, 2014, 2013 and 2012	25,535,933	\$ 4,008,443

(a) Summary of stock options outstanding and exercisable as at June 30, 2014:

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, 2012	\$ 100,119
Stock - based compensation for 2013	4,255
Balance, June 30, 2013	104,374
Stock - based compensation for 2014	-
Balance, June 30, 2014	\$ 104,374

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

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. Capital Management

The Company defines capital that it manages as its shareholders' equity. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. As at June 30, 2014, total managed capital was \$15,895,572, compared to \$14,414,327 as at June 30, 2013.

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, 2014.

The Company is subject to externally imposed capital requirements with respect to its covenants on the Company's various credit facilities. The covenants require that the Company obtain approval by the lender for asset purchases in excess of \$1,500,000 and that the Company maintain the following ratios:

- Current ratio: greater than 1.25:1
- Debt service coverage ratio: greater than 1.20:1
- Debt / Equity ratio: less than 3.00:1

The Company was not in violation of any covenants during the year.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. Changes in non-cash working capital

	2014	2013
Accounts receivable	\$ 545,065	\$ (65,282)
Inventories	(556,726)	(293,448)
Prepaid expenses and deposits	(101,942)	25,034
Accounts payable and accruals	1,101,208	(201,613)
	\$ 987,605	\$ (535,309)

15. Financial instruments and risk management

The carrying values of cash and cash equivalents, 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, 2014, its carrying value approximates its fair value based on current market rates for similar financial instruments.

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, 2014, the Canadian/U.S. foreign exchange rate was CA\$1.00 = US\$0.9376 (2013 – US\$0.9508).

The Company currently has a U.S. dollar bank account balance of \$2,570,742, U.S. dollar accounts receivable of \$66,400 and U.S dollar accounts payable of \$709,253. A change of \$0.10 in the Canadian dollar would not have a material impact on the Company's income and comprehensive income for the year.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

15. 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, 2014, the Company's working capital balance was \$1,481,368, which indicates an ability to meet short-term obligations.

The following are the contractual maturities of financial liabilities as at June 30, 2014:

	Total	< 1 year	1-3 years	> 3 years
Accounts payable and accruals	\$ 2,321,291	\$ 2,321,291	\$ -	\$ -
Obligations under finance leases	72,306	28,601	43,705	-
Long-term debt	18,543,813	1,378,682	12,883,891	4,281,240
	\$ 20,937,410	\$ 3,728,574	\$ 12,927,596	\$ 4,281,240

It is the Company's intention to meet these obligations through cash provided by operating activities. 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:

- 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.
- 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 16% 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.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013 (Expressed in Canadian \$)

15. Financial instruments and risk management (continued)

Trade receivables for each customer were evaluated for collectability and the Company felt that there was no impairment of receivables. At June 30, 2014, 81.1% (2013 – 76.1%) of trade receivables were outstanding less than 60 days, 7.1% (2013 – 14.0%) were outstanding for between 60 and 120 days, and the remaining 11.80% (2013 – 9.9%) were outstanding for more than 120 days. Trade receivables are considered past due based on the specific contract terms agreed to with a customer.

16. 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, 2014	June 30, 2013
Less than one year	\$ 19,192	\$ 19,192
Between one and five years	20,783	39,984
More than five years	-	-
	\$ 39,975	\$ 59,176

17. Related party transactions

The Company participated in transactions with related parties as follows:

	2014	2013
Management fees paid to a company that owns a majority of the outstanding shares	\$ 579,000	\$ 554,000
Directors fees	76,000	72,500
Share-based payment	-	4,255

The Company considers the President, Vice President and the Directors as key management personnel. 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.

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.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. Sales

		2014	2013
Sales	-propagation	\$ 22,794,890	\$ 20,138,127
	-AgriStability payment	250,629	-
	-other income	263,566	449,077
		\$ 23,309,085	\$ 20,587,204

AgriStability is a federal program that provides financial assistance to farms that experience declines in sales and margins due to weather, disease and low market prices. Payments are made in the form of grants, which require no repayment. The AgriStability payment of \$250,629 represents a payment for the 2011 program year.

19. Selling, general and administrative expenses

		2014	2013
General operating		\$ 1,251,056	\$ 1,259,385
Employee wages and benefits		1,327,364	1,213,304
Depreciation		1,575,427	1,580,709
		\$ 4,153,847	\$ 4,053,398

20. Interest expense

		2014	2013
Interest expense	-operating line of credit	\$ 30,766	\$ 40,545
	-long-term debt	815,957	827,401
	-finance leases	5,438	13,603
	-deferred borrowing costs	6,302	5,980
	-other	2,575	2,520
		\$ 861,038	\$ 890,049

BEVO AGRO INC.

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21. Segmented information

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

		2014			
		Assets	Property, Plant and Equipment	Goodwill	Sales
Canada	\$	38,414,081	\$ 32,681,474	\$ 522,665	\$ 12,437,919
United States		-	-	-	10,871,166
	\$	38,414,081	\$ 32,681,474	\$ 522,665	\$ 23,309,085

		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

Sales to one customer located in the United States constitute 43% of total sales for the year ended June 30, 2014.

BEVO AGRO INC.

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22. Earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period.

	June 30, 2014	June 30, 2013
Net income	\$ 738,745	\$ 184,533
Weighted average number of common shares outstanding during the period	25,535,933	25,535,933
Basic earnings per share	\$ 0.03	\$ 0.01

Diluted earnings per share is computed by adjusting the weighted average number of common shares outstanding to include the potential dilution of common share equivalents, such as outstanding stock options.

	June 30, 2014	June 30, 2013
Net income	\$ 738,745	\$ 184,533
Weighted average number of common shares outstanding during the period	25,535,933	25,535,933
Adjustment for stock options	750,000	750,000
Weighted average number of common shares outstanding during the period for diluted earnings per share	26,285,933	26,285,933
Diluted earnings per share	\$ 0.03	\$ 0.01

23. Subsequent event

Subsequent to the year end, the Company acquired a greenhouse and approximately 20 acres of property located on Hale Road in Pitt Meadows, BC for \$2,500,000 plus taxes. The five acre Venlo type greenhouse is fully equipped with computer controls, CO2 system, irrigation system, heat storage and can be operated in 8 different climate zones. The 20 acres also allows for additional expansion.

The acquisition has been funded by a new term loan facility.