

BEVO AGRO INC.

**CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS**

DECEMBER 31, 2015

(Unaudited, prepared by Management)

Notice of No Auditor Review of Consolidated Interim Condensed Financial Statements

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these consolidated interim condensed financial statements, they must be accompanied by a notice indicating that these consolidated interim condensed financial statements have not been reviewed by an auditor.

The accompanying consolidated interim condensed financial statements of the Company have been prepared by management and have not been reviewed or audited by the Company's auditors.

BEVO AGRO INC.

CONSOLIDATED INTERIM CONDENSED BALANCE SHEETS

DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

	December 31, 2015	June 30, 2015	December 31, 2014
ASSETS			
Current			
Cash	\$ 957,682	\$ 1,197,439	\$ 534,352
Accounts receivable [Note 3 and 7]	2,463,161	1,198,701	2,573,731
Inventories – supplies inventory [Note 4]	2,587,793	1,714,819	1,765,518
Inventories – Biological assets [Note 4]	2,954,806	1,023,594	2,945,356
Prepaid expenses and deposits	82,745	35,899	46,349
	9,046,187	5,170,452	7,865,306
Property, plant and equipment [Note 5]	35,396,650	35,552,106	36,341,405
Goodwill [Note 6]	522,665	522,665	522,665
	\$ 44,965,502	\$ 41,245,223	\$ 44,729,376
LIABILITIES			
Current			
Accounts payable and accruals [Note 8]	\$ 6,237,235	\$ 2,002,029	\$ 6,462,407
Current portion of long-term debt [Note 9]	2,516,151	2,717,610	2,477,591
Current portion of obligations under finance leases [Note 10]	28,722	30,440	29,506
	8,782,108	4,750,079	8,969,504
Long-term debt [Note 9]	16,821,011	17,445,815	18,509,120
Obligations under finance leases [Note 10]	-	13,265	28,746
Deferred income tax liability [Note 11]	1,978,139	1,893,299	1,514,889
	27,581,258	24,102,458	29,022,259
SHAREHOLDERS' EQUITY [Note 13]			
Capital stock [Note 12]	4,008,443	4,008,443	4,008,443
Contributed surplus	154,011	154,011	104,374
Revaluation surplus	742,500	742,500	742,500
Retained earnings	12,479,290	12,237,811	10,851,800
	17,384,244	17,142,765	15,707,117
	\$ 44,965,502	\$ 41,245,223	\$ 44,729,376

Commitments [Note 16]

Authorized for issue by the board of directors on January 29, 2016:

“Jack Benne”

Jack Benne, Director

“John Hoekstra”

John Hoekstra, Director

UNAUDITED

See accompanying Notes to the Financial Statements

BEVO AGRO INC.

CONSOLIDATED INTERIM CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

	For the three months ended December 31, 2015	For the six months ended December 31, 2015	For the three months ended December 31, 2014	For the six months ended December 31, 2014
Sales [Note 18]	\$ 6,776,711	\$ 11,288,378	\$ 6,422,391	\$ 10,370,796
Cost of sales	5,066,936	8,468,033	5,126,410	8,219,052
Gross margin	1,709,775	2,820,345	1,295,981	2,151,744
Expenses				
Selling, general and administrative expenses [Note 19]	1,021,118	2,102,136	1,068,739	2,061,483
Income (loss) from operations	688,657	718,209	227,242	90,261
Interest expense [Note 20]	(195,489)	(391,890)	(209,846)	(412,877)
Gain on disposal of asset	-	-	-	67,951
Income (loss) before income taxes	493,168	326,319	17,396	(254,665)
Provision for (recovery of) income taxes -deferred	128,220	84,840	4,530	(66,210)
Net income (loss) and comprehensive income (loss) for the period	364,948	241,479	12,866	(188,455)
Retained earnings, beginning of the period	12,114,342	12,237,811	10,838,934	11,040,255
Retained earnings, end of the period	\$ 12,479,290	\$ 12,479,290	\$ 10,851,800	\$ 10,851,800
Basic and diluted earnings (loss) per share [Note 22]	\$ 0.01	\$ 0.01	\$ 0.00	(0.01)
Weighted average number of common shares outstanding	25,535,933	25,535,933	25,535,933	25,535,933

UNAUDITED

See accompanying Notes to the Financial Statements

BEVO AGRO INC.

CONSOLIDATED INTERIM CONDENSED STATEMENTS OF CASH FLOWS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

	For the three months ended December 31, 2015	For the six months ended December 31, 2015	For the three months ended December 31, 2014	For the six months ended December 31, 2014
Cash flows from (used by) operating activities				
Net income (loss) and comprehensive income (loss) for the period	\$ 364,948	\$ 241,479	\$ 12,866	\$ (188,455)
Items not involving cash				
Depreciation of property, plant and equipment	447,394	886,365	415,500	805,383
Deferred income taxes (recovery)	128,220	84,840	4,530	(66,210)
Gain on disposal of assets	-	-	-	(67,951)
Changes in non-cash working capital [Note 14]	1,457,443	119,714	1,880,977	948,451
	2,398,005	1,332,398	2,313,873	1,431,218
Cash flows from (used by) investing activities				
Acquisition of property, plant and equipment	(557,389)	(730,909)	(554,024)	(4,527,864)
Proceeds on disposal of property, plant and equipment	-	-	-	130,000
	(557,389)	(730,909)	(554,024)	(4,397,864)
Cash flows from (used by) financing activities				
Bank indebtedness	(475,922)	-	(1,103,674)	-
Long-term debt repayments	(414,847)	(826,264)	(414,339)	(753,736)
Advances under long-term debt – BMO demand loan	-	-	112,000	112,000
Advances under long-term debt – FCC transition loan	-	833,334	-	835,718
Advances under long-term debt – De Lage Landen	-	-	-	582,750
Advances under long-term debt – FCC Advancer loan	-	-	-	-
Note payable for purchase of greenhouse	-	(833,333)	-	1,666,667
Advances (repayments) of obligations under finance leases	(7,550)	(14,983)	(7,094)	(14,054)
	(898,319)	(841,246)	(1,413,107)	2,429,345
Increase (decrease) in cash	942,297	(239,757)	346,742	(537,301)
Cash and cash equivalents, beginning of period	15,385	1,197,439	187,610	1,071,653
Cash and cash equivalents, end of period	\$ 957,682	\$ 957,682	\$ 534,352	\$ 534,352
Supplementary information:				
Interest paid [Note 20]	\$ 194,331	\$ 389,024	\$ 208,758	\$ 410,170

UNAUDITED

See accompanying Notes to the Financial Statements

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

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

		Capital stock	Contributed surplus	Revaluation Surplus	Retained earnings	Total equity
Balance at June 30, 2015	\$	4,008,443	\$ 154,011	\$ 742,500	\$ 12,237,811	\$ 17,142,765
Net loss and comprehensive loss for the six months		-	-	-	241,479	241,479
Balance at December 31, 2015	\$	4,008,443	\$ 154,011	\$ 742,500	\$ 12,479,290	\$ 17,384,244

		Capital stock	Contributed surplus	Revaluation Surplus	Retained earnings	Total equity
Balance at June 30, 2014	\$	4,008,443	\$ 104,374	\$ 742,500	\$ 11,040,255	\$ 15,895,572
Net loss and comprehensive loss for the six months		-	-	-	(188,455)	(188,455)
Balance at December 31, 2014	\$	4,008,443	\$ 104,374	\$ 742,500	\$ 10,851,800	\$ 15,707,117

UNAUDITED

See accompanying Notes to the Financial Statements

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

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 45 acres of propagation greenhouse facilities on 98 acres of land in Milner, BC and 20 acres of land in Pitt Meadows, 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, nurseries and retail outlets throughout North America.

2. Significant accounting policies

Basis of preparation

These consolidated interim condensed financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

The consolidated interim condensed 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 interim condensed 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

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

2. Significant accounting policies (continued)

Use of estimates

The preparation of consolidated interim condensed 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

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

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 month 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

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

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

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

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

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

2. Significant accounting policies (continued)

Basic and diluted earnings (loss) per common share

Basic earnings (loss) per share are 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. The Black-Scholes options pricing model considers the following inputs:

- Exercise price
- Expected life of the award
- Expected volatility
- Current market price of the underlying shares
- Risk-free interest rate
- Dividend yield

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.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

2. Significant accounting policies (continued)

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.

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 December 31, 2015 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 December 31, 2015 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.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

2. Significant accounting policies (continued)

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 December 31, 2015 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.

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).

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.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

3. Accounts receivable

	December 31, 2015		June 30, 2015		December 31, 2014
Trade receivables	\$ 2,553,326	\$	1,159,634	\$	2,622,007
GST receivable (payable)	(90,165)		39,067		(48,276)
	\$ 2,463,161	\$	1,198,701	\$	2,573,731

4. Inventories

	December 31, 2015		June 30, 2015		December 31, 2014
Supplies	\$ 2,587,793	\$	1,714,819	\$	1,765,518
Biological assets	2,954,806		1,023,594		2,945,356
	\$ 5,542,599	\$	2,738,413	\$	4,710,874

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

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

5. Property, plant and equipment

	Cost	Accumulated Depreciation	Net book value December 31, 2015
Land*	\$ 8,330,000	\$ -	\$ 8,330,000
Land improvements	1,329,574	479,522	850,052
Buildings	1,980,900	490,254	1,490,646
Equipment under finance lease	306,111	264,512	41,599
Greenhouse, shade and packing equipment	35,605,306	16,501,107	19,104,199
Machinery and equipment	12,212,637	6,935,188	5,277,449
Capital projects in progress	302,705	-	302,705
	\$ 60,067,233	\$ 24,670,583	\$ 35,396,650

	Cost	Accumulated Depreciation	Net book value June 30, 2015
Land*	\$ 8,330,000	\$ -	\$ 8,330,000
Land improvements	1,329,574	456,881	872,693
Buildings	1,957,061	456,732	1,500,329
Equipment under finance lease	306,111	259,889	46,222
Greenhouse, shade and packing equipment	35,565,807	15,964,673	19,601,134
Machinery and equipment	11,847,772	6,646,044	5,201,728
	\$ 59,336,325	\$ 23,784,219	\$ 35,552,106

	Cost	Accumulated Depreciation	Net book value December 31, 2014
Land*	\$ 6,930,000	\$ -	\$ 6,930,000
Land improvements	1,329,574	433,565	896,009
Buildings	1,561,235	423,812	1,137,423
Equipment under finance lease	306,111	254,112	51,999
Greenhouse, shade and packing equipment	36,946,219	15,413,383	21,532,836
Machinery and equipment	11,810,650	6,351,721	5,458,929
Capital projects in progress	334,209	-	334,209
	\$ 59,217,998	\$ 22,876,593	\$ 36,341,405

*Original carrying value of land is \$3,806,212

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

5. Property, plant and equipment (continued)

	Opening net book value June 30, 2015	Additions	Disposals	Depreciation	Closing net book value Dec 31, 2015
Land	\$ 8,330,000	\$ -	\$ -	\$ -	\$ 8,330,000
Land improvements	872,693	-	-	22,642	850,052
Buildings	1,500,329	23,839	-	33,522	1,490,646
Equipment under finance lease	46,222	-	-	4,622	41,599
Greenhouse and packing equipment	19,601,134	39,499	-	536,435	19,104,199
Machinery and equipment	5,201,728	364,866	-	289,144	5,277,449
Capital projects in progress	-	302,705	-	-	302,705
	\$ 35,552,106	\$ 730,909	\$ -	\$ 886,365	\$ 35,396,650

	Net book value June 30, 2014	Additions/ reclassifications	Disposals	Depreciation	Net book value June 30, 2015
Land	\$ 6,930,000	\$ 1,400,000	\$ -	\$ -	\$ 8,330,000
Land improvements	792,189	125,359	-	44,855	872,693
Buildings	733,704	815,082	-	48,457	1,500,329
Equipment under finance lease	57,777	-	-	11,555	46,222
Greenhouse and packing equipment	18,978,090	1,664,992	-	1,041,948	19,601,134
Machinery and equipment	4,836,161	994,311	62,550	566,194	5,201,728
Capital projects in progress	353,553	(353,553)	-	-	-
	\$ 32,681,474	\$ 4,646,191	\$ 62,550	\$ 1,713,009	\$ 35,552,106

	Opening net book value June 30, 2014	Additions	Disposals	Depreciation	Closing net book value Dec 31, 2014
Land	\$ 6,930,000	\$ -	\$ -	\$ -	\$ 6,930,000
Land improvements	792,189	125,359	-	21,539	896,009
Buildings	733,704	419,257	-	15,538	1,137,423
Equipment under finance lease	57,777	-	-	5,778	51,999
Greenhouse and packing equipment	18,978,090	3,045,404	-	490,658	21,532,836
Machinery and equipment	4,836,161	957,188	62,550	271,870	5,458,929
Capital projects in progress	353,553	(19,344)	-	-	334,209
	\$ 32,681,474	\$ 4,527,864	\$ 62,550	\$ 805,383	\$ 36,341,405

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

6. Goodwill

	December 31, 2015	June 30, 2015	December 31, 2014
Goodwill	\$ 522,665	\$ 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.

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. There was no balance on the line of credit at December 31, 2015.

8. Accounts payable and accruals

	December 31, 2015	June 30, 2015	December 31, 2014
Trade payables	\$ 2,472,264	\$ 1,162,587	\$ 2,778,689
Other accruals	383,292	639,640	496,903
Customer deposits	3,381,679	199,802	3,186,815
	\$ 6,237,235	\$ 2,002,029	\$ 6,462,407

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited – prepared by Management)

9. Long-term debt

	December 31, 2015	June 30, 2015	December 31, 2014
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	\$ 7,785,888	\$ 8,016,057	\$ 8,242,931
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	6,195,862	6,542,720	6,883,775
FCC term loan #3, maturing July 1, 2016, carries interest at FCC's variable rate minus 0.5% (currently 3.2%), repayable with blended monthly payments of \$17,360	2,622,336	2,680,667	2,738,183
FCC transition loan #4, maturing August 1, 2019, carries interest at FCC's fixed rate of 3.5%, repayable with blended monthly payments of \$17,843	1,413,033	664,662	759,205
BMO demand loan, maturing January 3, 2024, carries interest at BMO's Prime rate plus 0.5% (currently 3.2%), repayable with blended monthly payments of \$1,520	126,948	133,825	140,575
BMO demand loan, maturing December 1, 2024, carries interest at BMO's Prime rate plus 0.5% (currently 3.2%), repayable with blended monthly payments of \$1,108	101,382	106,242	111,219
De Lage Landen loan, maturing July 2, 2017, carries interest at fixed rate of 2.35%, repayable with blended monthly payments of \$16,781	327,900	424,970	519,916
Note payable for purchase of greenhouse, non-interest bearing, unsecured Payment due July 2, 2016 - \$833,334	833,333	1,666,667	1,666,667
Deferred borrowing costs	(69,520)	(72,385)	(75,760)
Total long-term debt	19,337,162	20,163,425	20,986,711
Less: current portion of long-term debt	(2,516,151)	(2,717,610)	(2,477,591)
Long-term portion of long-term debt	\$ 16,821,011	\$ 17,445,815	\$ 18,509,120

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

9. Long-term debt (continued)

The Company has unused Advancer loans from Farm Credit Canada totaling \$3,500,000 that expire July 1, 2019. At any point the Company can draw down on these loans and pay interest only payments for a term of 5 years.

The Farm Credit Canada (“FCC”) term loans and transition loan 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 loans are secured by equipment and accounts receivable. The De Lage Landen loan is secured by equipment.

The Note payable for purchase of greenhouse will be funded by the FCC transition loan #4. Total available proceeds of this loan are \$2,500,000, of which \$1,666,667 has been drawn down. FCC will fund a payment of \$833,333 on July 2, 2016, in accordance with the terms of the note payable.

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

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

	December 31, 2015	June 30, 2015	December 31, 2014
2015	\$ -	\$ -	\$ 2,477,591
2016	2,516,151	2,717,610	12,331,644
2017	1,668,444	12,017,718	1,026,881
2018	7,207,855	939,796	4,916,188
2019	702,485	4,511,130	-
Thereafter	7,311,747	49,556	310,167
Less: deferred borrowing costs	(69,520)	(72,385)	(75,760)
	\$ 19,337,162	\$ 20,163,425	\$ 20,986,711

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

10. Obligations under finance leases

	December 31, 2015	June 30, 2015	December 31, 2014
Obligations under finance leases	\$ 29,617	\$ 45,772	\$ 61,950
Less: imputed interest	895	2,067	3,698
Present value of minimum lease payments	28,722	43,705	58,252
Less: current portion	28,722	30,440	29,506
Long-term portion	\$ -	\$ 13,265	\$ 28,746

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

	December 31, 2015	June 30, 2015	December 31, 2014
Less than one year	\$ 28,722	\$ 30,440	\$ 29,506
Between one and five years	-	13,265	28,746
More than five years	-	-	-
	\$ 28,722	\$ 43,705	\$ 58,252

Annualized interest rate is 6.25%.

11. Deferred income tax liability

The company has recorded a provision for estimated deferred income tax liability as follows:

	December 31, 2015	June 30, 2015	December 31, 2014
Opening balance - beginning of period/year	\$ 1,893,299	\$ 1,581,099	\$ 1,581,099
Estimated deferred income tax liability (adjustment on current earnings (losses))	84,840	312,200	(66,210)
Closing balance - end of period/year	\$ 1,978,139	\$ 1,893,299	\$ 1,514,889

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

12. Capital stock

Authorized:

Unlimited common shares without par value

Issued:

	Number of Shares	Amount
Issued and outstanding as at December 31, 2015, June 30, 2015 and December 31, 2014	25,535,933	\$ 4,008,443

Summary of stock options outstanding and exercisable as at December 31, 2015:

Security type	Number outstanding	Price	Expiry date
Stock options	750,000	\$ 0.18	May 11, 2021
Stock options	750,000	\$ 0.36	June 9, 2025

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.

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. On June 9, 2015, 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 \$0.36 per share. One-third of these options vested as of June 9, 2015, one-third will vest on June 9, 2016 and one-third will vest on June 9, 2017.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

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 December 31, 2015, total managed capital was \$17,384,244, compared to \$17,142,765 as at June 30, 2015 and \$15,707,117 as at December 31, 2014.

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 quarter ended December 31, 2015.

The Company is subject to externally imposed capital requirements with respect to its covenants on the Company's various credit facilities. These covenants are tested annually. The Company has maintained a favorable relationship with its creditors during the interim periods ended December 31, 2015.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited – prepared by Management)

14. Changes in non-cash working capital

	For the three months ended December 31, 2015	For the six months ended December 31, 2015	For the three months ended December 31, 2014	For the six months ended December 31, 2014
Accounts receivable	\$ (506,785)	\$ (1,264,460)	\$ (761,399)	\$ (1,034,612)
Inventories	(1,867,673)	(2,804,186)	(1,758,901)	(2,271,219)
Prepaid expenses and deposits	136,418	(46,846)	17,400	113,166
Accounts payable and accruals	3,695,483	4,235,206	4,383,877	4,141,116
	\$ 1,457,443	\$ 119,714	\$ 1,880,977	\$ 948,451

15. 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 and obligations under finance leases approximate their fair values upon initial recognition and subsequent to that date have been amortized using the effective interest rate method. At December 31, 2015, their carrying value approximates their 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- Quoted 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

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

15. Financial instruments and risk management (continued)

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 December 31, 2015, the Canadian/U.S. foreign exchange rate was CA\$1.00 = US\$0.7211 (December 31, 2014 – US\$0.8628).

The Company currently has a U.S. dollar bank account balance of \$314,664, U.S. dollar accounts receivables of \$980,421, U.S. dollar accounts payables of \$656,264 and U.S. dollar customer deposits of \$6,318. 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.

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 December 31, 2015, the Company's working capital balance was \$264,079. The Company has unused Advancer loans from Farm Credit Canada totaling \$3,500,000 that expire July 1, 2019. At any point the Company can draw down on these loans and pay interest only payments for a term of 5 years. The Company also has a transition loan from Farm Credit Canada which will fund the entire note payable with respect to the Company's acquisition of greenhouse facilities in Pitt Meadows. These factors indicate an ability for the Company to meet short-term obligations.

The following are the contractual maturities of financial liabilities as at December 31, 2015:

	Total	< 1 year	1-3 years	> 3 years
Accounts payable and accruals	\$ 6,237,235	\$ 6,237,235	\$ -	\$ -
Obligations under finance leases	28,722	28,722	-	-
Long-term debt	19,337,162	2,516,151	8,876,299	7,944,712
	\$ 25,603,119	\$ 8,782,108	\$ 8,876,299	\$ 7,944,712

It is the Company's intention to meet these obligations through cash provided by operating activities and funding from the FCC Advancer and transition loans. If resources and operations fail to generate sufficient cash to satisfy its obligations, the Company may seek to arrange debt or other financing.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIODS ENDED DECEMBER 31 (Expressed in Canadian \$)

(Unaudited – prepared by Management)

15. Financial instruments and risk management (continued)

Interest rate risk

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's long-term debt is primarily at fixed interest rates. However, approximately 14% 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.

Trade receivables for each customer were evaluated for collectability and the Company felt that there was no impairment of receivables. At December 31, 2015, 88.26% (2013 – 78.5%) of trade receivables were outstanding less than 60 days, 5.52% (2013 – 14.0%) were outstanding for between 60 and 120 days, and the remaining 6.22% (2013 – 7.5%) were outstanding for more than 120 days. Trade receivables are considered past due based on the specific contract terms agreed to with a customer.

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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:

	December 31, 2015	June 30, 2015	December 31, 2014
Less than one year	\$ 3,199	\$ 19,192	\$ 19,192
Between one and five years	-	1,591	11,184
More than five years	-	-	-
	\$ 3,199	\$ 20,783	\$ 30,376

17. Related party transactions

The Company participated in transactions with related parties as follows:

	For the three months ended December 31, 2015	For the six months ended December 31, 2015	For the three months ended December 31, 2014	For the six months ended December 31, 2014
Management fees paid to CGM Ventures Inc, a company that owns a majority of the outstanding shares	\$ 126,000	\$ 252,000	\$ 126,000	\$ 252,000
Directors fees	19,000	39,500	19,000	39,500

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, CGM Ventures Inc. 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.

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(Unaudited – prepared by Management)

18. Sales

		For the three months ended December 31, 2015	For the six months ended December 31, 2015	For the three months ended December 31, 2014	For the six months ended December 31, 2014
Sales	-propagation	\$ 6,498,219	\$ 10,763,961	\$ 6,269,114	\$ 10,024,913
	-currency gains (losses)	15,071	135,831	16,541	93,944
	-other income	263,421	388,586	136,736	251,939
		\$ 6,776,711	\$ 11,288,378	\$ 6,422,391	\$ 10,370,796

19. Selling, general and administrative expenses

		For the three months ended December 31, 2015	For the six months ended December 31, 2015	For the three months ended December 31, 2014	For the six months ended December 31, 2014
General operating		\$ 279,042	\$ 611,879	\$ 345,800	\$ 644,138
Employee wages and benefits		294,682	603,892	307,439	611,962
Depreciation		447,394	886,365	415,500	805,383
		\$ 1,021,118	\$ 2,102,136	\$ 1,068,739	\$ 2,061,483

20. Interest

		For the three months ended December 31, 2015	For the six months ended December 31, 2015	For the three months ended December 31, 2014	For the six months ended December 31, 2014
Interest expense	-operating line of credit	\$ 4,584	\$ 5,008	\$ 7,554	\$ 13,271
	-long-term debt	189,157	382,217	200,103	394,179
	-finance leases	528	1,172	984	2,101
	-deferred borrowing costs	1,157	2,865	1,088	2,707
	-other	63	628	117	619
		\$ 195,489	\$ 391,890	\$ 209,846	\$ 412,877

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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:

	For the six months ended December 31, 2015 Total Assets	For the six months ended December 31, 2015 Property, plant and equipment	For the six months ended December 31, 2015 Goodwill	For the six months ended December 31, 2015 Sales
Canada	\$ 44,965,502	\$ 35,396,650	\$ 522,665	\$ 6,647,412
United States	-	-	-	4,640,966
	\$ 44,965,502	\$ 35,396,650	\$ 522,665	\$ 11,288,378

	For the six months ended December 31, 2014 Total Assets	For the six months ended December 31, 2014 Property, plant and equipment	For the six months ended December 31, 2014 Goodwill	For the six months ended December 31, 2014 Sales
Canada	\$ 44,729,376	\$ 36,341,405	\$ 522,665	\$ 6,686,085
United States	-	-	-	3,684,711
	\$ 44,729,376	\$ 36,341,405	\$ 522,665	\$ 10,370,796

BEVO AGRO INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited – prepared by Management)

22. Earnings (loss) per 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.

	For the six months ended December 31, 2015	For the six months ended December 31, 2014
Net income (loss)	\$ 241,479	\$ (188,455)
Weighted average number of common shares outstanding during the period	25,535,933	25,535,933
Basic earnings (loss) per share	\$ 0.01	\$ (0.01)

Diluted earnings (loss) 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.

	For the six months ended December 31, 2015	For the six months ended December 31, 2014
Net income (loss)	\$ 241,479	\$ (188,455)
Weighted average number of common shares outstanding during the period	25,535,933	25,535,933
Adjustment for stock options	1,500,000	750,000
Weighted average number of common shares outstanding during the period for diluted earnings (loss) per share	27,035,933	26,285,933
Diluted earnings (loss) per share	\$ 0.01	\$ (0.01)