BEVO AGRO INC.

CONSOLIDATED
FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2018 AND 2017

Independent Auditors' Report

To the Shareholders of Bevo Agro Inc.:

We have audited the accompanying consolidated financial statements of Bevo Agro Inc., which comprise the consolidated statements of financial position as at June 30, 2018 and June 30, 2017, and the consolidated statements of operations and other comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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.

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, 2018 and June 30, 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, British Columbia

September 28, 2018

MNP LLP

Chartered Professional Accountants

MNP

BEVO AGRO INC.
CONSOLIDATED BALANCE SHEETS
YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

		June 30, 2018		June 30, 2017
ASSETS				
Current				
Cash *[Note 9]*	**$**	**5,181,982**	$	4,811,556
Accounts receivable *[Note 3]*		**3,125,979**		2,808,956
Inventories *[Note 4]*		**2,535,736**		1,979,031
Biological assets *[Note 5]*		**1,053,796**		991,919
Prepaid expenses and deposits		**16,741**		103,213
		11,914,234		10,694,675
Property, plant and equipment *[Note 6]*		**47,731,363**		42,810,896
Investment in associate *[Note 7]*		**139,698**		-
Goodwill *[Note 8]*		**522,665**		522,665
	$	**60,307,960**	$	54,028,236
LIABILITIES				
Current				
Accounts payable and accruals *[Note 10]*	**$**	**2,327,686**	$	2,613,678
Current portion of long-term debt *[Note 11]*		**2,296,732**		2,287,213
Government agencies payable		**938,495**		-
		5,562,913		4,900,891
Long-term debt *[Note 11]*		**19,976,783**		22,101,699
Deferred tax liability *[Note 12]*		**4,627,711**		3,378,695
		30,167,407		30,381,285
SHAREHOLDERS' EQUITY *[Note 15]*				
Capital stock *[Note 13]*		**4,174,998**		4,105,203
Contributed surplus *[Note 13]*		**240,518**		245,925
Revaluation surplus		**4,899,690**		742,500
Non-controlling interest *[Note 14]*		**-**		427,130
Retained earnings		**20,825,347**		18,126,193
		30,140,553		23,646,951
	$	**60,307,960**	$	54,028,236

Commitments *[Note 18]*

Authorized for issue by the board of directors on September 26, 2018:

"Jack Benne"
Jack Benne, Director

"John Hoekstra"
John Hoekstra, Director

See accompanying Notes to the Financial Statements

BEVO AGRO INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

	2018	2017
Revenue *[Note 20]*	$ 32,791,772	$ 33,351,285
Cost of sales	22,866,868	23,074,545
Gross margin	9,924,904	10,276,740
Expenses		
Selling, general and administrative expenses *[Note 21]*	5,086,273	5,813,612
Income from operations	4,838,631	4,463,128
Other income (expenses)		
Interest expense *[Note 22]*	(798,726)	(827,284)
Gain on disposal *[Note 7]*	1,074,336	-
Loss from equity investment *[Note 7]*	(585,856)	-
Gain on disposal of assets	-	27,706
Income before income taxes	4,528,385	3,663,550
Deferred tax provision *[Note12]*	600,206	1,091,641
Current tax provision *[Note12]*	1,229,025	-
Net income and comprehensive income for the year	2,699,154	2,571,909
Loss attributed to non-controlling interest *[Note 14]*	-	484,323
Net income and comprehensive income for the year – attributable to Bevo Agro Inc.	2,699,154	3,056,232
Basic earnings per share *[Note 24]*	$ 0.10	$ 0.12
Diluted earnings per share *[Note 24]*	0.10	0.11
Weighted average number of common shares outstanding	26,215,933	25,954,933

See accompanying Notes to the Financial Statements

BEVO AGRO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

	2018	2017
Cash flows from (used by) Operating Activities		
Net income and comprehensive income for the year	**$ 2,699,154**	$ 2,571,909
Items not involving cash		
Depreciation of property, plant and equipment	**2,383,416**	2,073,452
Stock-based compensation	**10,208**	34,546
Deferred tax payable	**600,206**	1,091,641
Government agencies payable	**938,495**	-
Gain on disposal of assets	**-**	(27,706)
Gain on disposal *[Note 7]*	**(1,074,336)**	-
Loss from equity investment *[Note 7]*	**585,856**	-
Interest paid *[Note 21]*	**(790,957)**	820,507
Changes in non-cash working capital *[Note 16]*	**(1,135,125)**	(815,109)
Other items	**31,652**	93,821
	4,248,569	5,022,554
Cash flows from (used by) Investing Activities		
Acquisition of property, plant and equipment	**(2,508,013)**	(6,505,139)
Investment in CubicFarm Systems Corp. *[Note 7]*	**(110,000)**	-
Proceeds on disposal of property, plant and equipment	**10,130**	38,571
	(2,607,883)	(6,466,568)
Cash flows from (used by) Financing Activities		
Long-term debt repayments	**(2,115,397)**	(1,854,672)
Advances under long-term debt – BMO term loan	**-**	385,444
Advances under long-term debt – FCC transition loan	**-**	833,334
Advances under long-term debt – FCC term loan	**-**	4,711,059
Note payable for purchase of greenhouse	**-**	(833,333)
Interest paid *[Note 21]*	**790,957**	820,507
Advances (repayments) of obligations under finance leases	**-**	(13,265)
Issue of shares by CubicFarm Systems Corp.	**-**	918,000
Exercise of stock options *[Note 13]*	**54,180**	71,189
	(1,270,260)	4,217,756
Increase in cash	**370,426**	2,773,742
Cash, beginning of year	**4,811,556**	2,037,814
Cash, end of year	**$ 5,181,982**	$ 4,811,556

See accompanying Notes to the Financial Statements

BEVO AGRO INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

	Capital stock	**Contributed surplus**	**Revaluation Surplus**	**Non-controlling interest**	**Retained earnings**	**Total equity**
Balance at June 30, 2017	**$ 4,105,203**	**$ 245,925**	**$ 742,500**	**$ 427,130**	**$ 18,126,193**	**$ 23,646,951**
Net income and comprehensive income for the year	**-**	**-**	**-**	**-**	**2,699,154**	**2,699,154**
Revaluation of land	**-**	**-**	**4,157,190**	**-**	**-**	**4,157,190**
Non-controlling interest	**-**	**-**	**-**	**(427,130)**	**-**	**(427,130)**
Stock-based compensation	**-**	**10,208**	**-**	**-**	**-**	**10,208**
Exercise of stock options	**69,795**	**(15,615)**	**-**	**-**	**-**	**54,180**
Balance at June 30, 2018	**$ 4,174,998**	**$ 240,518**	**$ 4,899,690**	**$ -**	**$ 20,825,347**	**$ 30,140,553**

	Capital stock	Contributed surplus	Revaluation Surplus	Non-controlling interest	Retained earnings	Total equity
Balance at June 30, 2016	$ 4,013,873	$ 231,520	$ 742,500	$ (93,821)	$ 15,063,414	$ 19,957,486
Net income and comprehensive income for the year	-	-	-	-	2,571,909	2,571,909
Loss attributed to non-controlling interest	-	-	-	(484,323)	484,323	-
Transactions with non-controlling interest	-	-	-	911,453	6,547	918,000
Non-controlling interest	-	-	-	93,821	-	93,821
Stock-based compensation	-	34,546	-	-	-	34,546
Exercise of stock options	91,330	(20,141)	-	-	-	71,189
Balance at June 30, 2017	$ 4,105,203	$ 245,925	$ 742,500	$ 427,130	$ 18,126,193	$ 23,646,951

See accompanying Notes to the Financial Statements

1. Nature of operations

Bevo Agro Inc. (the "Company") was incorporated July 9, 1985, under the *Company Act* of British Columbia, which has been replaced with the *Business Corporations Act* (British Columbia). The Company's common shares are traded on the TSX Venture Exchange under the symbol "BVO".

The Company's principal place of business is located at 7170 Glover Road, Langley, British Columbia, Canada, V2Y 0W9.

The Company operates 53 acres of propagation greenhouse facilities on 98 acres of land in Langley, 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 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 Agro Inc. (Nevada) and Bevo Farms Inc. (Arizona). Bevo Agro Inc. (Nevada) and Bevo Farms Inc. (Arizona) are inactive. All significant intercompany balances and transactions have been eliminated upon consolidation.

2. Significant accounting policies (continued)

Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make 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 taxes and the likelihood of realization of same, calculation of fair value of biological assets, estimates of goodwill impairment, 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. Foreign exchange gains and losses are included in operations.

Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less any cost to complete and sell the goods.

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

2. Significant accounting policies (continued)

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.

For vegetable plants with a grow life of 10 weeks or less, the Company has determined that fair value is determinable only at the end of the propagation growth cycle at which point the plants are delivered to the customer and revenue is recorded. For bedding / floral plants which have a grow life of up to 50 weeks, the Company has determined that fair value is determinable at the point at which the plants are spaced, which ranges from week 12 to 25 of the growth cycle. Prior to the spacing date, the cost approximates fair value as little biological transformation has taken place. After the spacing date, the fair value is calculated as the present value of the contracted sales price less estimated costs to sell and estimated costs to complete the growth cycle. Cash flows are discounted at a rate of 10% over the period from fiscal period to end of shipping date, all of which represent Level 3 of the fair value hierarchy. These estimates are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

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.

2. Significant accounting policies (continued)

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.

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 year.

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.

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.

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.

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, 2018 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, 2018 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, 2018 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.

2. Significant accounting policies (continued)

Segment reporting

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

Comprehensive income (loss)

Comprehensive income (loss) is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net earnings (loss) and other comprehensive earnings (loss). Other comprehensive income (loss) consists of gains and losses affecting shareholders' equity that are excluded from net income (loss).

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

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 15 – Revenue from Contracts with Customers - On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16 – Leases - On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The extent of the impact of adoption of the standard has not yet been determined.

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

3. Accounts receivable

		June 30, 2018		June 30, 2017
Trade receivables	**$**	**3,080,252**	$	2,355,612
Receivable – related party		**-**		396,000
GST receivable		**45,727**		57,344
	$	**3,125,979**	$	2,808,956

4. Inventories

		June 30, 2018		June 30, 2017
Supplies inventory	**$**	**2,535,736**	$	1,979,031

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

5. Biological assets

		June 30, 2018		June 30, 2017
Bedding / floral plants	$	946,818	$	761,011
Vegetable plants		106,978		230,908
Total biological assets	$	1,053,796	$	991,919

Estimates of physical quantities of biological assets are as follows:

	June 30, 2018	June 30, 2017
Bedding / floral plants	251,796	172,500
Vegetable plants	372,925	670,800
Total quantities	624,721	843,300

Changes in the carrying value of biological assets are as follows:

		June 30, 2018		June 30, 2017
Opening value	$	991,919	$	813,865
Purchases		9,990,067		11,299,171
Labour inputs		6,020,031		5,976,351
Cost of sales		(15,948,221)		(17,097,468)
Closing value	$	1,053,796	$	991,919

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

6. Property, plant and equipment

	Cost/ Fair value	Accumulated Depreciation	Net book value June 30, 2018
Land	**$ 13,136,000**	**$ -**	**$ 13,136,000**
Land improvements	**1,804,733**	**606,698**	**1,198,035**
Buildings	**2,149,117**	**658,635**	**1,490,482**
Greenhouse, shade and packing equipment	**44,575,096**	**19,615,659**	**24,959,437**
Machinery and equipment	**15,232,974**	**8,859,781**	**6,373,193**
Capital projects in progress	**574,216**	**-**	**574,216**
	$ 77,472,136	**$ 29,740,773**	**$ 47,731,363**

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 year. At June 30, 2018 land was revalued using an external revaluation method. Land was determined to have increased in value from $8,330,000 to $13,136,000. The revaluation surplus is recognized in other comprehensive income and credited to “revaluation surplus” in equity, net of tax. A portion of the revaluation surplus is subject to deferred taxes ($648,810) and is charged to deferred tax liability.

	Cost/ Fair value	Accumulated Depreciation	Net book value June 30, 2017
Land	$ 8,330,000	$ -	$ 8,330,000
Land improvements	1,528,910	549,816	979,094
Buildings	2,149,117	591,325	1,557,792
Equipment under finance lease	306,111	276,529	29,582
Greenhouse, shade and packing equipment	43,836,473	18,264,749	25,571,724
Machinery and equipment	13,970,809	7,743,040	6,227,769
Capital projects in progress	114,935	-	114,935
	$ 70,236,355	$ 27,425,459	$ 42,810,896

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

6. Property, plant and equipment (continued)

	Net book value June 30, 2017	Additions/ (revaluations)	Disposals	Depreciation	Net book value June 30, 2018
Land	$ 8,330,000	$ 4,806,000	$ -	$ -	$ 13,136,000
Land improvements	979,094	275,823	-	56,882	1,198,035
Buildings	1,557,792	-	-	67,310	1,490,482
Equipment under finance lease	29,582	(29,582)	-		-
Greenhouse and packing equipment	25,571,724	738,621	-	1,350,908	24,959,437
Machinery and equipment	6,227,769	1,063,870	10,130	908,316	6,373,193
Capital projects in progress	114,935	459,281	-	-	574,216
	$ 42,810,896	$ 7,314,013	$ 10,130	$ 2,383,416	$ 47,731,363

	Net book value June 30, 2016	Additions/ (revaluations)	Disposals	Depreciation	Net book value June 30, 2017
Land	$ 8,330,000	$ -	$ -	$ -	$ 8,330,000
Land improvements	827,410	199,336	-	47,652	979,094
Buildings	1,457,069	168,217	-	67,494	1,557,792
Equipment under finance lease	36,977	-	-	7,395	29,582
Greenhouse and packing equipment	18,566,777	8,352,572	-	1,226,220	25,571,724
Machinery and equipment	5,149,918	1,692,003	10,865	724,692	6,227,769
Capital projects in progress	4,021,923	(3,906,988)	-	-	114,935
	$ 38,390,074	$ 6,505,140	$ 10,865	$ 2,073,453	$ 42,810,896

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

7. Investment in associate

The Company currently has a 43% ownership stake (33% fully diluted) in CubicFarm Systems Corp. ("Cubic"). Cubic produces and sells commercial scale indoor vertical farming systems. Additional information relating to Cubic is available on Cubic's website at www.cubicfarms.com.

In the previous fiscal year the Company held a 51% ownership stake in Cubic. During the current year Cubic issued shares in order to raise funds and secure a partnership with a key manufacturing group. The issuance of shares diluted the Company's controlling interest to 43%. Accordingly, the Company deconsolidated Cubic and recognized the fair value of its investment in Cubic of $725,554. Fair value was estimated based on the liquidation value per share of Cubic, as (a) the assets of Cubic at the date of loss of control consisted primarily of cash; and (b) Cubic was still in the early stages of research and development.

Subsequent to the loss of control of Cubic, the Company has accounted for its investment in Cubic as an equity investment. The Company recognized its 43% share of the loss of Cubic of $585,856 as a reduction in the carrying value of the investment in accordance with the equity method of accounting.

		June 30, 2018		June 30, 2017
Fair value on initial recognition	**$**	**725,554**	$	-
Equity loss of investee		**(585,856)**		-
Carrying value	**$**	**139,698**		-

8. Goodwill

		June 30, 2018		June 30, 2017
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, 2018, 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%.

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

9. 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 mortgage on the Company land and buildings by means of an inter-creditor agreement. There was no balance on the line of credit as at June 30, 2018 or June 30, 2017.

10. Accounts payable and accruals

		June 30, 2018		June 30, 2017
Trade payables	**$**	**1,583,945**	$	1,680,513
Accruals		**689,320**		922,429
Customer deposits		**54,421**		10,736
	$	**2,327,686**	$	2,613,678

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

11. Long-term debt

	June 30, 2018	June 30, 2017
FCC term loan #1, maturing March 1, 2021, carries interest at FCC's fixed rate of 3.0%, repayable with blended monthly payments of $62,354	**$ 6,462,613**	$ 7,009,263
FCC term loan #2, maturing April 1, 2022, carries interest at FCC's fixed rate of 4.05%, repayable with blended monthly payments of $79,010	**4,352,358**	5,111,375
FCC term loan #3, maturing March 1, 2021, carries interest at FCC's fixed rate of 3.0%, repayable with blended monthly payments of $16,718	**2,304,683**	2,434,471
FCC term loan #4, maturing August 1, 2019, carries interest at FCC's fixed rate of 3.02%, repayable with blended monthly payments of $17,843	**1,852,110**	2,008,081
FCC term loan #5, maturing April 1, 2020, carries interest at FCC's fixed rate of 2.941%, repayable with blended monthly payments of $50,678	**6,912,043**	7,311,733
BMO term loan, maturing December 31, 2021, carries interest at BMO's fixed rate of 2.89%, repayable with blended monthly payments of $6,907	**275,061**	348,842
BMO demand loan, maturing January 3, 2024, carries interest at BMO's Prime rate plus 0.5% (currently 4.2%), repayable with blended monthly payments of $1,520	**90,477**	105,035
BMO demand loan, maturing December 1, 2024, carries interest at BMO's Prime rate plus 0.5% (currently 4.2%), repayable with blended monthly payments of $1,108	**75,600**	85,848
De Lage Landen loan, maturing July 2, 2017, carries interest at fixed rate of 2.35%, repayable with blended monthly payments of $16,781	**-**	33,463
Deferred borrowing costs	**(51,430)**	(59,199)
Total long-term debt	**22,273,515**	24,388,912
Less: current portion of long-term debt	**(2,296,732)**	(2,287,213)
Long-term portion of long-term debt	**$ 19,976,783**	$ 22,101,699

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

11. Long-term debt (continued)

The Company has unused Advancer loans from Farm Credit Canada totaling $4,000,000 that expire June 1, 2021. At any point the Company can draw down on these loans and pay interest only payments for a term of five years. These Advancer loans carry interest at FCC's variable rate minus 0.5%, (currently 4.2%).

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") loans are secured by a mortgage on the Company land and buildings by means of an inter-creditor agreement.

The deferred borrowing costs are amortized as the principal on the loan is repaid and are included as interest expense (Note 22).

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

		June 30, 2018
2019	$	2,296,732
2020		9,805,048
2021		8,288,209
2022		1,934,956
Thereafter		-
Less: deferred borrowing costs		(51,430)
	$	22,273,515

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

12. Deferred tax liability

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

	2018	2017
Earnings before income taxes	**$4,528,385**	$ 3,663,550
Income tax rate	**26.5%**	26.0%
Income tax expense computed at Canadian statutory rates	**1,200,022**	952,522
Non-deductible expenses	**12,755**	588
Change in estimates and other	**467,475**	138,531
Change in tax rate	**148,979**	-
Provision for income taxes	**$1,829,231**	$ 1,091,641
Provision for income taxes is made up of the following:		
Deferred tax provision	**$600,206**	$1,091,641
Current tax provision	**1,229,025**	-
	$1,829,231	$1,091,641

The statutory tax rate increased from 26% to 26.5% due to an increase in the BC corporate income tax rate on January 1, 2018.

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

	2018	2017
Deferred tax assets:		
Scientific research and experimental development expenditures and tax credits	-	$ 374,116
Goodwill, tax values in excess of book values	-	62,145
Non-capital losses carried forward	-	413,433
	-	849,694
Deferred tax liabilities:		
Property, plant and equipment - book values in excess of tax values	**(4,517,292)**	(4,228,389)
Goodwill – book values in excess of tax values	**(69,632)**	-
Scientific research and experimental development expenditures	**(40,787)**	-
Deferred tax liability, net	**$ (4,627,711)**	$ (3,378,695)

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

13. Capital stock

Authorized:

Unlimited common shares without par value

Issued:

	Number of Shares		Amount
Issued and outstanding as at June 30, 2017	**25,954,933**	**$**	**4,105,203**
Exercise of stock options during the year	**261,000**		**69,795**
Issued and outstanding as at June 30, 2018	**26,215,933**	**$**	**4,174,998**

Summary of stock options outstanding and exercisable as at June 30, 2018:

	Number of stock options	Weighted average exercise price
Beginning of year	**1,831,000**	**$ 0.35**
Granted	**-**	**-**
Forfeited	-	-
Exercised	**(261,000)**	-
Expired	-	-
End of year	**1,570,000**	**$ 0.38**

Security type	Number outstanding	Remaining contractual life (years)*	Expiry date
Stock options	110,000	2.8	May 11, 2021
Stock options	710,000	6.9	June 9, 2025
Stock options	750,000	7.8	May 2, 2026

*Weighted average life of all stocks options is 7.0 years

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

13. Capital stock (continued)

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 750,000 stock options under its 2004 stock option plan to directors and officers for the purchase of 750,000 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 750,000 stock options under its 2004 stock option plan to directors and officers for the purchase of 750,000 common shares at a price of $0.36 per share. One-third of these options vested as of June 9, 2015, one-third vested on June 9, 2016 and one-third vested on June 9, 2017.

On May 2, 2016, the Company granted 750,000 stock options under its 2004 stock option plan to directors and officers for the purchase of 750,000 common shares at a price of $0.43 per share. One-third of these options vested on May 2, 2016, one-third vested on May 2, 2017 and one-third vested on May 2, 2018.

Contributed surplus is comprised of the following:

Balance, June 30, 2017	$	**245,925**
Stock-based compensation for the year		**10,208**
Exercise of stock options		**(15,615)**
Balance, June 30, 2018	$	**240,518**

14. Non-controlling interest

In the previous fiscal year the Company held a 51% ownership stake in CubicFarm Systems Corp. (“Cubic”). During the current year Cubic issued shares in order to raise funds and secure a partnership with a key manufacturing group. The issuance of shares diluted the Company’s controlling interest. As a result, in the current year the ownership in Cubic is being treated as an investment rather than a subsidiary.

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

15. 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, 2018, total managed capital was $30,140,553, compared to $23,646,951 as at June 30, 2017.

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.

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, 2018.

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 maintain the following ratios at year-end:

- 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.

16. Changes in non-cash working capital

		2018		2017
Accounts receivable	**$**	**(317,023)**	$	(185,792)
Inventories		**(618,582)**		(457,589)
Prepaid expenses and deposits		**86,472**		(46,121)
Accounts payable and accruals		**(285,992)**		(125,607)
	$	**(1,135,125)**	$	(815,109)

17. Financial instruments and risk management

The carrying values of cash, accounts receivable, 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 value upon initial recognition and subsequent to that date have been amortized using the effective interest rate method. At June 30, 2018, 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- 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, 2018, the Canadian/U.S. foreign exchange rate was CA$1.00 = US$0.7611 (2017 – US$0.7709).

The Company currently has a U.S. dollar bank account balance of $1,208,281, U.S. dollar accounts receivable of $889,364 and U.S dollar accounts payable of $398,118.

U.S. dollar sales during the year were $15,737,134. U.S. dollar purchases during the year were $5,504,818, resulting in a net exposure of $10,232,316 USD. A change of $0.10 in the Canadian dollar would have an impact of approximately $1,000,000 USD on the Company's income and comprehensive income for the year.

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

17. 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, 2018, the Company's working capital balance was $6,351,321, which indicates an ability to meet short-term obligations.

The following are the contractual maturities of financial liabilities as at June 30, 2018:

	Total	< 1 year	1-3 years	> 3 years
Accounts payable and accruals	$ 2,327,686	$ 2,327,686	$ -	$ -
Current taxes payable	938,495	938,495		
Long-term debt	22,273,515	2,296,732	19,976,783	-
	$ 25,539,696	$ 5,562,913	$ 19,976,783	$ -

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

Interest rate risk

Interest rate risk consists of two components:

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

(b) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's long-term debt is primarily at fixed interest rates. However, approximately 1% 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.

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

17. Financial instruments and risk management (continued)

Credit risk

Credit risk is the risk that a party to one of the Company's financial instruments will fail to discharge an obligation and will cause the Company to incur a financial loss. The Company is exposed to credit risk with respect to its cash and 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 June 30, 2018, 44.9% (2017 – 67.3%) of trade receivables were outstanding less than 60 days, 17.1% (2017 – 18.4%) were outstanding for between 60 and 120 days, and the remaining 38.0% (2017 – 14.3%) were outstanding for more than 120 days. Trade receivables are considered past due based on the specific contract terms agreed to with a customer.

18. 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, 2018
Less than one year	$	14,484
Between one and five years		-
More than five years		-
	$	14,484

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19. Related party transactions

The Company participated in transactions with related parties as follows:

	2018	2017
Management fees paid to CGM Ventures Inc., a company that owns a majority of the outstanding shares	**$ 759,000**	$ 744,000
Account receivable from a company with director in common	**-**	396,000
Directors fees	**86,500**	71,000

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.

During the previous year a short-term receivable of $396,000 was advanced to Site 5 Holdings Inc., a company owned 100% by Leo Benne, Vice-president and one of the majority shareholders. A promissory note was signed with an agreement to settle the debt by December 31, 2017. On October 17, 2017 the loan was repaid in full.

20. Revenue

		2018	2017
Sales	-propagation	**$ 32,049,155**	$ 32,543,257
	-other income	**742,617**	808,028
		$ 32,791,772	$ 33,351,285

21. Selling, general and administrative expenses

	2018	2017
General operating	**$ 1,224,189**	$ 2,260,107
Employee wages and benefits	**1,478,668**	1,480,053
Depreciation	**2,383,416**	2,073,452
	$ 5,086,273	$ 5,813,612

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

22. Interest expense

		2018	2017
Interest expense	-operating line of credit	**$ 13,662**	$ 13,220
	-long-term debt	**775,496**	805,042
	-finance leases	**98**	197
	-deferred borrowing costs	**7,769**	6,777
	-other	**1,701**	2,048
		$ 798,726	$ 827,284

23. Segmented information

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

2018	Assets	Property, Plant and Equipment	Goodwill	Sales
Canada	**$ 60,307,960**	**$ 47,731,363**	**$ 522,665**	**$ 13,311,908**
United States	**-**	**-**	**-**	**19,479,864**
	$ 60,307,960	**$ 47,731,363**	**$ 522,665**	**$ 32,791,772**

2017	Assets	Property, Plant and Equipment	Goodwill	Sales
Canada	$ 54,028,236	$ 42,810,896	$ 522,665	$ 15,760,912
United States	-	-	-	17,590,373
	$ 54,028,236	$ 42,810,896	$ 522,665	$ 33,351,285

Sales to one customer located in the United States constitute 51% of total sales for the year ended June 30, 2018.

YEARS ENDED JUNE 30, 2018 AND 2017 (Expressed in Canadian $)

24. Earnings per share

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

		June 30, 2018		June 30, 2017
Net income	$	2,699,154	$	3,056,232
Weighted average number of common shares outstanding during the period		26,215,933		25,954,933
Basic earnings per share	$	0.10	$	0.12

Diluted earnings per share are 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, 2018		June 30, 2017
Net income	$	2,699,154	$	3,056,232
Weighted average number of common shares outstanding during the period		26,215,933		25,954,933
Adjustment for stock options		1,570,000		1,831,000
Weighted average number of common shares outstanding during the period for diluted earnings per share		27,785,933		27,785,933
Diluted earnings per share	$	0.10	$	0.11