

### Bevo Agro Inc. (TSX-V: BVO) – Q1-2008 Revenues Drop by 43% YOY; Liquidity problems persist – FINAL REPORT

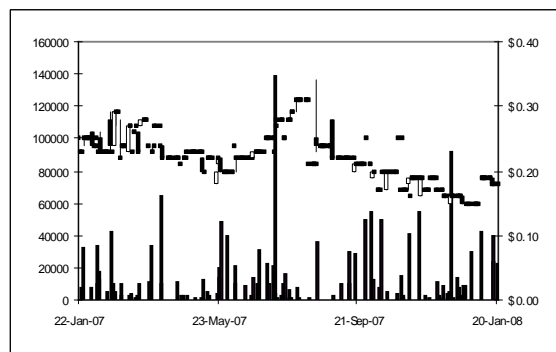
Sector/Industry: Agriculture

www.bevoagro.com

#### Market Data (as of January 22, 2008)

Current Price	C\$0.18
Fair Value	C\$0.17 (↓)
Rating*	SELL
Risk*	5 (Highly Spec) (↑)
52 Week Range	C\$0.15 -C\$0.34
Shares O/S	25,535,933
Market Cap	C\$4.60 million
Current Yield	N/A
P/E (forward)	N/A
P/B	0.52
YoY Return	-21.7%
YoY TSX-V	-13.4%

\*see back of report for rating and risk definitions



#### FY2007 and Q1-2008 Highlights

- Although revenues in FY2007 beat our expectations by 2.1%, revenues in Q1-2008 fell well below expectations. Total revenues in Q1-2008 were \$1.64 million, compared to \$2.87 million in Q1-2007, a decrease of 43%. However, we expect the drop in revenues to be temporary, and do not expect such YOY decline in revenues in the next three quarters.
- BVO posted a net loss of \$0.28 million (EPS: -\$0.01) in FY2007, compared to our estimate of \$0.32 million (EPS: -\$0.01). Net losses were lower than our estimate due to higher than expected revenues and margins. In Q1-2008, the company posted a net loss of \$0.84 million (EPS: -\$0.03) versus \$0.41 million (EPS: -\$0.02) in Q1-2007.
- We have lowered our revenue and EPS forecasts for FY2008, and FY2009, due to a short-term slowdown in the industry and a high C\$/US\$. We have, however, maintained our long-term outlook, and have not made any major changes in our long-term revenue forecasts.
- The company has a working capital deficit because the \$5 million debt due to Banyan Capital is currently overdue. Our models suggest that the company's debt service ratio might not meet BMO's pre-conditions, even by the end of FY2008. Therefore BVO is now trying to negotiate alternative sources of long-term financing with the co-operation of Banyan.
- Investors should note that if the company is unable to find any source of funding by January 31, 2008, Banyan could force the company into bankruptcy.

#### Key Financial Data and Statistics (FYE June 30)

	2004A	2005A	2006A	2007A	2008E	2009E
Revenues	19,495,807	21,756,304	22,036,071	19,795,142	17,713,764	19,502,789
EBITDA Margin	21.1%	20.2%	20.0%	17.4%	17.1%	19.5%
Net Income	561,614	985,782	805,129	(279,606)	(121,696)	382,679
EPS	0.02	0.04	0.03	-0.01	0.00	0.01
Assets	37,717,586	38,828,520	36,262,048	36,907,116	35,586,762	35,177,037
Debt to Capital	78.8%	74.1%	70.0%	70.2%	69.2%	67.3%
EBITDA Interest Coverage	3.43	2.44	2.57	2.07	2.47	3.11
ROE	7.7%	11.0%	8.1%	-2.9%	-1.3%	3.8%

Bevo Agro Inc. (BVO) is North America's largest supplier of propagated plants to greenhouses, nurseries, and other farming operations. The company currently operates 34 acres of propagation greenhouse facilities. Sales have grown at a CAGR of 13.8% from 2000-2006.

**FY2007 revenues beat expectations by 2.1%; but Q1-2008 revenues dropped by 43% YOY**

**Q4-2007 and FY2007 Revenues:** Revenues in Q4-2007 were \$8.20 million versus \$8.56 million in Q4-2006, a decrease of 4.2%. However, we were very pleased to see that Q4-2007 revenues were above our expectations. Revenues in FY2007 were \$19.80 million (our forecast was \$19.39 million) compared to \$22.04 million in FY2006, a decline of 10.2%.

Q4 is normally the best quarter in a year as the company shifts its production cycle from the propagation of vegetable crops to the propagation and growing of bedding plants and flowers, which are priced higher. The table below shows BVO's revenue distribution.

**Bevo Agro - Geographic Sales - Q4**

	Q4-2006	% of Total	Q4-2007	% of Total	Growth
Canada	5,968,914	69.8%	3,623,236	44.2%	-39.3%
U.S.	2,496,907	29.2%	4,338,653	52.9%	73.8%
Mexico	91,569	1.1%	234,269	2.9%	155.8%
<b>Total</b>	<b>8,557,390</b>	<b>100.0%</b>	<b>8,196,158</b>	<b>100.0%</b>	<b>-4.2%</b>

**Bevo Agro - Geographic Sales - Annual**

	2006	% of Total	2007	% of Total	Growth
Canada	15,027,485	68.2%	11,067,622	55.9%	-26.4%
U.S.	6,599,753	29.9%	7,833,755	39.6%	18.7%
Mexico	408,833	1.9%	893,765	4.5%	118.6%
<b>Total</b>	<b>22,036,071</b>	<b>100.0%</b>	<b>19,795,142</b>	<b>100.0%</b>	<b>-10.2%</b>

Although the company had strong growth in revenues from the U.S. (18.7% YOY increase) and Mexico (118.6% YOY increase) in FY2007, total revenues declined in FY2007 due to a decline in revenues from sales in Canada. Sales in Canada suffered a YOY decline of 39.2% in Q4-2007, and a 26.4% in the 12-month period in FY2007.

Sales in the U.S. were actually 15.1% lower YOY in the first 9 months of FY2007, however, US sales ended up higher YOY in FY2007, due to strong growth in sales in Q4-2007, offset by a depreciating U.S. dollar with respect to the C\$. The strong growth in revenues in the U.S. and Mexico is very encouraging, considering that approximately 44% of the company's revenues were in U.S.\$ (sales from the U.S. and Mexico) and that they had no foreign exchange contracts. Sales in the U.S. increased primarily due to a contract with a large wholesaler in the U.S. Now, we take a closer look at sales in Canada.

Canadian sales dropped as the B.C. greenhouse industry is currently undergoing pressure due to an increase in competition from Mexican growers, high labor costs, natural gas prices, and a strong C\$ with respect to the U.S.\$. The company also attributed the decline in revenues in FY2007 to a shift in customer (greenhouse growers) requirements from full grown seedlings to plugs. According to management, customers in the U.S. and Mexico now prefer to buy plugs due to their lower shipping costs. Since plugs are sold at lower prices, this shift in buying pattern impacted Bevo's revenues in FY2007. However, we do not believe it had a major impact, because Bevo reported strong sales growth in the U.S. and Mexico.

**Q1-2008 Revenues:** Although revenues in Q4-2007 beat expectations, revenues in Q1-2008

were well below expectations. Total revenues in Q1-2008 were \$1.64 million, compared to \$2.87 million in Q1-2007, a decrease of 43%. Revenues from the U.S. and Canada dropped by 82.3% and 15.5%, respectively. The drop in revenues from the U.S. concerns us the most, especially because U.S. revenues had recorded 18.7% YOY growth in FY2007.

#### Bevo Agro - Geographic Sales - Q1

	Q1-2007	% of Total	Q1-2008	% of Total	Growth
Canada	805,556	28.0%	680,438	41.5%	-15.5%
U.S.	1,606,902	55.9%	284,892	17.4%	-82.3%
Mexico	461,051	16.0%	672,883	41.1%	45.9%
<b>Total</b>	<b>2,873,509</b>	<b>100.0%</b>	<b>1,638,213</b>	<b>100.0%</b>	<b>-43.0%</b>

BVO attributes the decline in U.S. sales to increased competition, temporary loss of a large customer, reallocation of certain orders and a high C\$/US\$. We expect the C\$ to stay above parity for the rest of 2008, which means that a high C\$/US\$ will continue to negatively impact revenues in FY2008.

One positive aspect is that the loss of a large customer in the U.S. (which had a significant impact on revenues in Q1-2008) is just temporary, and therefore, we expect revenues to get back inline with expectations as the company regains the customer. Management also indicated that they intend to be more aggressive and pick up more business in the local greenhouse market. We believe the following developments will also have a positive impact on revenues going forward.

- **New Product Line:** In Q3-2007, BVO introduced its first packaged product – the “Bee Fresh Tomatoes”. The concept is to package small plants that produce about 40-50 cherry tomatoes, and sell them through retail channels. The product is currently being distributed to local nurseries and grocery stores. Although not significant, the company recorded revenues from sales of this new product line in Q4-2007 and Q1-2008. Management informed us that market response for the product has been good so far. The company is currently spending much of their time and effort working on the production and growing process to perfect the product.

Although we do not expect this new product to have a significant impact on revenues going forward, we believe that such initiatives are positive for the company, as they contribute to growth in the long-run.

- **Plans to start grafting grapes:** In Q3-2007, the company announced their intentions to start grafting grapes for vineyards. According to Statistics Canada, B.C. residents consume an average of 16.2 litres of wine per person per year –the second highest in the country after Quebec at 18.2 litres per person per year. Grape production for wineries has grown by 15% since 2001, and we believe that entry into this space could give BVO significant upside potential.

Although the company has put this initiative on hold at this time, we believe it has good potential in the long-term.

- In Q4-2007, BVO signed a non-competition agreement with Rainbow Greenhouses Ltd. whereby Rainbow agrees not to supply a specified customer for a period of ten years. BVO has been supplying products to this major client through Rainbow for the past few years. The company believes that direct access to the client should improve BVO's abilities for service, deliveries and increased orders. According to the agreement, BVO has to make periodic payments totaling \$425,000 over the next three years.

**Revenue Forecasts:** As Q1-2008 revenues were below expectations, we have reduced our revenue forecasts for FY2008, and FY2009 (due to lower sales, short-term slowdown in the industry and a high C\$/US\$), from \$24.24 million, and \$28.00 million, to \$17.71 million and \$19.50 million, respectively. We have, however, maintained our long-term outlook, and have not made any major changes to our long-term revenue forecasts.

## Margins

The table below shows margins in FY2007 compared to previous periods. As shown in the table below, although most margins dropped YOY, all margins beat our expectations.

Margins	2004A	2005A	2006A	2007A	2007E
Gross	31.9%	31.1%	31.9%	33.2%	33.0%
EBITDA	21.1%	20.2%	20.0%	17.4%	16.0%
Operating	11.8%	10.7%	11.4%	8.3%	6.2%
Pre-tax	5.7%	2.4%	3.6%	-0.1%	-2.6%
Net	2.9%	4.5%	3.7%	-1.4%	-1.7%

As for Q1-2008, all margins were below expectations due to lower than expected sales.

Margins	Q1 2006	Q1 2007	Q1 2008
Gross	21.9%	32.4%	6.3%
EBITDA	0.9%	7.5%	-27.8%
Operating	-17.6%	-8.4%	-51.4%
Pre-tax	-34.3%	-22.7%	-75.7%
Net	-21.4%	-14.2%	-51.5%

**Gross margins in FY2007** were 33.2% (our estimate was 33.0%), compared to 31.9% in FY2006. Q4 gross margins are generally lower due to the change in product mix. Gross margins in Q4-2007 were 24.34% compared to 24.0% in Q4-2006. Gross margins improved YOY due to increased efficiencies in plant management and purchasing. Operating costs generally consist of purchase costs, packaging and freight costs, labor costs and utility costs. A significant decline in purchase costs (from 36.6% of sales to 29.9% of sales), which represented 45% of COGS in FY2007, offset by increases in labor costs (19.0% of sales to 21.0% of sales), packaging and freight costs (7.1% of sales to 9.6% of sales) and utility costs (5.4% of sales to 6.3% of sales), led to the overall increase in gross margins.

**Gross margins in Q1-2008** were only \$0.10 million (6.3% of sales) versus \$0.93 million (32.4% of sales) in Q1-2007. Gross margins were lower because a major portion of the company's expenses for utilities, occupancy and labor continue on an ongoing basis

regardless of sales levels.

**We have lowered our gross margin estimate for FY2008 from 32% to 29.6%.**

EBITDA margins dropped from 20.0% in FY2006, to 17.4% in FY2007 (our estimate was 16.0%), due to increases in bad debt expenses and general operating and administrative expenses as a percentage of sales YOY. General operating expenses and administrative expenses were \$2.75 million in FY2007 (13.9% of sales, compared to our estimate of 14.0% of sales) compared to \$2.62 million in FY2006 (11.9% of sales), which resulted in lower EBITDA margins in FY2007. General operating and administrative costs increased YOY due to increased staffing costs, and costs for repairs and maintenance to buildings, boilers and equipment. Although these expenses increased YOY, the increase was as expected, and therefore, we have not made any changes in our forecasts. BVO recorded bad debt expenses of \$0.39 million in FY2007 related to several customers going out of business. Our estimates for EBITDA margins were lower as we had estimated higher bad debt expenses in Q4-2007. We were expecting the company to record \$0.60 million in bad debt expenses, while they actually recorded only \$0.39 million.

General operating expenses and administrative expenses were inline with expectations in Q1-2008, but as revenues were below expectations, costs as a percentage of sales were significantly higher YOY. In Q1-2008, the company had EBITDA of (\$0.46 million) versus \$0.21 million in Q1-2007.

**Recorded net losses in FY2007 and Q1-2008**

The company recorded a net loss \$0.11 million in Q4-2007 versus a net profit of \$0.49 million in Q4-2006. BVO recorded depreciation expenses (non-cash) of \$1.79 million, and interest expenses of \$1.66 million in FY2007. As a result, the company posted a net loss of \$0.28 million (EPS: -\$0.01) in FY2007, compared to a net income of \$0.81 million (EPS: \$0.03) in FY2006. Net losses were lower than our estimate (\$0.32 million; EPS: -\$0.01) due to higher than expected revenues and margins.

In Q1-2008, the company posted a net loss of \$0.84 million (EPS: -\$0.03) versus \$0.41 million (EPS: -\$0.02) in Q1-2007.

As a result of lower revenue forecasts, we have lowered our EPS forecasts for FY2008, and FY2009, from net profit of \$0.86 million (EPS: \$0.03) and \$1.66 million (EPS: \$0.06), respectively, to a net loss of \$0.12 million (EPS: -\$0.00) and net profit of \$0.38 million (EPS: \$0.01).

**Cash Flows**

Although BVO recorded a net loss in FY2007, \$2.34 million of the recorded expenses were non-cash expenses (amortization and depreciation, and future income tax recovery), which means that BVO had positive cash flows from operations of \$2.08 million in FY2007, versus \$3.53 million in FY2006. Cash flows were higher in FY2006 due to higher earnings. The cash conversion cycle increased from 53 days to 61 days. Due to a decline in sales, inventory levels increased significantly at the end of 2007 (inventory days increased from 43 days to 60 days) compared to levels at the end of FY2006. However, the company compensated by speeding up its receivables (62 days to 57 days) and by delaying its payables (from 52 days

to 56 days).

<b>Activity Analysis</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Receivables Days	46	56	62	57
Inventory Processing Days	40	43	43	60
Payables Payment Period	49	55	52	56
Cash Conversion Cycle	36	44	53	61

The company spent all the cash generated from operations on investing (\$1.10 million) and for financings (\$1.01 million). Of the \$1.10 million spent on investing activities, \$0.67 million were for equipment (versus \$0.65 million in FY2006) and \$0.48 million were for development of the company's new product line, the Bee Fresh Table Tomatoes. We have raised our estimate of CAPEX for FY2008 from \$0.40 million to \$0.50 million. The \$1.01 million spent on financing activities, was primarily to bring down their revolving line of credit (of \$3 million) from \$1 million at the end of FY2006 to \$0.04 million by the end of FY2007.

The company's cash on hand dropped to \$0.03 million at the end of FY2007, from \$0.06 million at the end of FY2006.

As for Q1-2008, the company spent \$1.23 million on operating activities, and \$0.14 million on investing activities. All these expenses were funded through increased debt (from the company's credit facility). The company raised \$1.38 million (net) from financings in Q1-2008.

The table below shows the company's liquidity and cash position at the end of Q1-2008.

### Cash and Liquidity Position

<b>Liquidity Analysis</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Q1 - 2008</b>
Working Capital	296,344	620,994	(19,331,588)	(2,709,020)	(4,043,642)
Current Ratio	1.06	1.09	0.21	0.69	0.55
Debt/Capital	78.8%	74.1%	70.0%	70.2%	73.2%
Interest Coverage Ratio (EBIT)	1.92	1.29	1.46	0.99	(2.11)
<b>Profitability Analysis</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Q1 - 2008</b>
Return on Avg Assets	1.7%	2.6%	2.1%	-0.8%	-2.4%
Return on Avg Equity	8.3%	12.1%	8.5%	-2.9%	-9.6%
Return on Invested Capital	7.99%	6.74%	7.41%	5.01%	-2.6%
<b>DuPont Analysis</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Q1 - 2008</b>
Net Margins	2.88%	4.53%	3.65%	-1.41%	
Asset Turnover	0.52	0.56	0.61	0.54	
Leverage	5.19	4.32	3.66	3.82	
ROE	7.73%	10.97%	8.12%	-2.89%	

At the end of Q1-2008, the company had a cash and working capital deficit of \$0.04 million and \$4.04 million, versus \$0.06 million and \$19.33 million at the end of FY2006. The company has a working capital deficit because \$5 million debt that was due to Banyan Capital is currently overdue. The \$5 million convertible debenture was due on September 24, 2007. The Bank of Montreal was supposed to fund repayment of the convertible debentures. However, BMO postponed the advancement of the loan as BVO's debt service ratio did not meet the bank's pre-conditions to funding. Banyan has extended the repayment due date to

January 31, 2008. BVO is now trying to negotiate alternative sources of long-term financing with the co-operation of Banyan.

The company's debt to capital at the end of Q1-2008 was 73.2%, and is expected to drop to 69.2% by the end of FY2008. Our models suggest that although the company's debt to equity will meet BMO's pre-conditions, the debt to service ratio might fall slightly below the requirements by the end of FY2008.

	2007	2008E
Debt to Equity	2.35	2.25
Debt Service Ratio	1.18	1.24

Therefore, we believe the company will have to find an alternative source (other than BMO) to fund repayment of Banyan's debt. Investors should note that if the company is unable to find any source of funding by January 31, 2008, Banyan could force the company into bankruptcy.

## Valuation

Our revised DCF valuation model gave a fair value estimate of \$0.23 per share, down from \$0.27 per share. Valuation dropped as we lowered our EPS forecasts for FY2008 and FY2009.

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	Terminal
FFO	1,870	2,436	3,227	3,554	4,297	4,659	5,092	5,570	6,096
Investment in W/C	541	2,283	(69)	(76)	(84)	(93)	(102)	(112)	(123)
CFO	2,411	4,719	3,158	3,477	4,213	4,566	4,991	5,458	5,973
Capex	(500)	(500)	(500)	(600)	(600)	(700)	(700)	(800)	(800)
Free Cash Flow	1,911	4,219	2,658	2,877	3,613	3,866	4,291	4,658	5,173
PV	1,721	3,303	1,810	1,704	1,860	1,731	1,670	1,577	14,592
WACC	15%								
Terminal Growth	3%								
<b>Firm Value</b>	<b>29,968</b>								
Debt	(24,075)								
Equity Value	5,893								
Shares O/S	25,536								
DCF Value	\$ 0.23								

As liquidity risks still persist, we continue to deduct our estimate of the company's cost of bankruptcy (\$0.06 per share) from our DCF valuation.

(in \$000's)	Value	Shares	VPS
DCF Valuation	\$5,893	25,536	\$0.23
Bankruptcy Costs	\$1,644	25,536	\$0.06
<b>Net Fair Value</b>	<b>\$4,249</b>	<b>25,536</b>	<b>\$0.17</b>

## Rating

Based on our revised valuation models, we reiterate our SELL rating, and reduce our fair value on the company from \$0.22 per share to \$0.17 per share. We believe strong competition, high labor costs and a high C\$/US\$ will continue to put downward pressure on the company's revenues. Upside catalysts will arise, and liquidity risks will be reduced, when the company finds an alternative source to fund repayment of Banyan's debt.

## Risks

The following factors, though not exhaustive, will cause our estimates to differ from actual

results:

- The company is in growth mode and incurring debt for expansion; debt to capital levels are relatively high.
- Key person risk - The company is dependent on two individuals, Jack and Leo Benne, for their expertise in greenhouse technology.
- The stock is thinly traded and investors may face liquidity issues trying to enter and exit positions.
- There is evidence to suggest that the business is becoming increasingly competitive.
- Greenhouse operations are capital intensive and thus, operating leverage is quite high.
- The company exports a material percentage of sales to the U.S.; the strong C\$ has affected sales and may continue to do so.

**We rate BVO's shares Risk 5: Highly Speculative.**

## Appendix

### Bevo Agro - Income Statement

(YE June 30)

	2004A	2005A	2006A	2007A	2008E	2009E
<b>Sales</b>	19,495,807	21,756,304	22,036,071	19,795,142	17,713,764	19,502,789
<b>COGS</b>	13,281,520	14,990,018	15,004,813	13,222,220	12,466,979	13,261,896
<b>Gross Margin</b>	<b>6,214,287</b>	<b>6,766,286</b>	<b>7,031,258</b>	<b>6,572,922</b>	<b>5,246,785</b>	<b>6,240,892</b>
<b>Expenses</b>						
General Operating Expense	1,245,631	1,358,292	1,498,921	1,562,712	1,151,395	1,267,681
Administrative Expenses	857,648	1,016,545	1,120,337	1,192,093	1,062,826	1,170,167
Gain (loss) asset disposal	6,402	(6,497)	-	(11,470)	-	-
Insurance Settlement	-	-	-	-	-	-
Bad Debts	-	-	-	394,615	-	-
Acquisition Costs	-	-	-	-	-	-
<b>EBITDA</b>	<b>4,117,410</b>	<b>4,397,946</b>	<b>4,412,000</b>	<b>3,434,972</b>	<b>3,032,565</b>	<b>3,803,044</b>
Depreciation	1,814,850	2,072,028	1,898,709	1,794,021	1,990,692	1,990,692
<b>EBIT</b>	<b>2,302,560</b>	<b>2,325,918</b>	<b>2,513,291</b>	<b>1,640,951</b>	<b>1,041,873</b>	<b>1,812,352</b>
Interest	1,198,748	1,804,785	1,715,589	1,658,926	1,229,097	1,223,615
<b>EBT</b>	<b>1,103,812</b>	<b>521,133</b>	<b>797,702</b>	<b>(17,975)</b>	<b>(187,224)</b>	<b>588,737</b>
<b>Taxes</b>						
Current	203,104	(292,749)	(139,638)	(182,898)	(51,112)	160,725
Future	339,094	(171,900)	132,211	444,529	(14,416)	45,333
<b>Income Tax Expense</b>	<b>542,198</b>	<b>(464,649)</b>	<b>(7,427)</b>	<b>261,631</b>	<b>(65,528)</b>	<b>206,058</b>
<b>Net Income</b>	<b>561,614</b>	<b>985,782</b>	<b>805,129</b>	<b>(279,606)</b>	<b>(121,696)</b>	<b>382,679</b>
<b>EPS</b>	<b>0.02</b>	<b>0.04</b>	<b>0.03</b>	<b>-0.01</b>	<b>0.00</b>	<b>0.01</b>

**Bevo Agro - Balance Sheet**  
 (YE June 30)

	2004A	2005A	2006A	2007A	2008E	2009E
<b>Assets</b>						
<b>Current</b>						
Cash	480,910	357,971	58,332	34,072	729,299	3,934,169
Accounts Receivable	2,345,191	4,316,715	3,219,325	2,924,502	2,617,003	1,950,279
Inventory	1,512,651	1,985,748	1,510,906	2,830,305	2,668,641	1,193,571
Prepaid Expenses & Tax Rec	637,777	518,096	376,342	232,863	177,138	195,028
<b>Total</b>	<b>4,976,529</b>	<b>7,178,530</b>	<b>5,164,905</b>	<b>6,021,742</b>	<b>6,192,080</b>	<b>7,273,046</b>
PPE	32,413,245	31,343,788	30,109,385	28,982,386	27,612,386	26,242,386
Deferred Costs	65,065	43,455	35,844	603,459	482,767	362,075
Goodwill	262,747	262,747	262,747	642,997	642,997	642,997
Mortgage Receivable			689,167	656,532	656,532	656,532
<b>Total Assets</b>	<b>37,717,586</b>	<b>38,828,520</b>	<b>36,262,048</b>	<b>36,907,116</b>	<b>35,586,762</b>	<b>35,177,037</b>
<b>Liabilities</b>						
<b>Current</b>						
Bank Debt	539,706	1,393,198	1,000,495	37,666	37,666	37,666
Accounts Payable	1,806,913	2,697,322	1,561,218	2,477,428	2,493,396	2,652,379
Tax Payable	-	-	-	-	-	-
Current LT Debt (incl sub debt)	1,883,145	2,175,686	21,720,499	6,109,103	919,133	7,569,392
Current Capital Leases	450,421	291,330	214,281	106,565	94,607	80,483
<b>Total</b>	<b>4,680,185</b>	<b>6,557,536</b>	<b>24,496,493</b>	<b>8,730,762</b>	<b>3,544,801</b>	<b>10,339,920</b>
LT Debt (incl sub debt)	23,219,977	21,360,111	-	16,039,590	20,120,457	12,551,066
Capital Leases	532,379	228,822	16,818	197,689	103,082	22,599
Future Taxes	1,621,942	1,450,042	1,582,253	2,026,782	2,012,366	2,057,698
Related Debt	397,160	247,160	247,160	247,160	247,160	247,160
<b>Total Liabilities</b>	<b>30,451,643</b>	<b>29,843,671</b>	<b>26,342,724</b>	<b>27,241,983</b>	<b>26,027,867</b>	<b>25,218,443</b>
<b>Equity</b>						
Capital	3,156,141	3,889,265	4,008,443	4,008,443	4,008,443	4,008,443
Contributed Surplus			10,168	35,583	51,041	68,061
Retained Earnings	4,109,802	5,095,584	5,900,713	5,621,107	5,499,411	5,882,090
<b>Total Equity</b>	<b>7,265,943</b>	<b>8,984,849</b>	<b>9,919,324</b>	<b>9,665,133</b>	<b>9,558,895</b>	<b>9,958,594</b>
<b>Total Equity &amp; Liabilities</b>	<b>37,717,586</b>	<b>38,828,520</b>	<b>36,262,048</b>	<b>36,907,116</b>	<b>35,586,762</b>	<b>35,177,037</b>

**Bevo Agro - Cash Flow**

YE June 30

	2004A	2005A	2006A	2007A	2008E	2009E
<b>Operations</b>						
Net Income	561,614	985,782	805,129	(279,606)	(121,696)	382,679
Amortization and Other Costs	1,814,850	2,072,028	1,898,709	1,895,551	2,006,150	2,007,711
Future Taxes	339,094	(171,900)	132,211	444,529	(14,416)	45,333
Loss (gain) on asset sales & other	117,915	492,816	119,178	(11,470)	-	-
<b>Funds From Operations</b>	<b>2,833,473</b>	<b>3,378,726</b>	<b>2,955,227</b>	<b>2,049,004</b>	<b>1,870,038</b>	<b>2,435,723</b>
			2,150,098			
<b>Changes in Working Cap</b>						
Accounts Receivable	187,486	(1,971,524)	1,097,390	294,823	307,499	666,724
Prepaid Expenses & Tax Receivables	87,845	138,628	141,754	143,479	55,725	(17,890)
Inventory	(140,616)	(473,097)	474,842	(1,319,399)	161,664	1,475,070
Accounts Payable	50,814	890,409	(1,136,104)	916,210	15,968	158,983
Taxes Payable & Other	(972,794)	(18,947)	-	-	-	-
<b>Total</b>	<b>(787,265)</b>	<b>(1,434,531)</b>	<b>577,882</b>	<b>35,113</b>	<b>540,857</b>	<b>2,282,887</b>
<b>Cash From Operations</b>	<b>2,046,208</b>	<b>1,944,195</b>	<b>3,533,109</b>	<b>2,084,117</b>	<b>2,410,895</b>	<b>4,718,610</b>
<b>Investing</b>						
Capital Expenditures	(10,682,307)	(1,284,417)	(646,695)	(671,452)	(500,000)	(500,000)
Disposals & Other	11,400	309,952	(699,167)	(430,835)	-	-
<b>Cash Used in Investing</b>	<b>(10,670,907)</b>	<b>(974,465)</b>	<b>(1,345,862)</b>	<b>(1,102,287)</b>	<b>(500,000)</b>	<b>(500,000)</b>
<b>Financing</b>						
Bank Debt	(446,731)	853,492	(392,703)	(962,829)	-	-
Advances under term debt	11,500,000	380,000.00	416,133	16,575,000	5,000,000	-
LT Debt Repayment	(1,537,784)	(1,947,325)	(2,231,431)	(16,571,806)	(6,109,103)	(919,133)
Capital Leases	(599,389)	(462,648)	(289,053)	73,155	(106,565)	(94,607)
Related Debt & Other	(41,590)	(150,000)	-	(119,610)	-	-
Contributed Surplus	-	-	10,168	-	-	-
Equity	110,600	233,813	-	-	-	-
<b>Cash From Financing</b>	<b>8,909,556</b>	<b>(1,092,668)</b>	<b>(2,486,886)</b>	<b>(1,006,090)</b>	<b>(1,215,668)</b>	<b>(1,013,740)</b>
Change in Cash	284,857	(122,939)	(299,639)	(24,260)	695,227	3,204,870
Cash BOP	196,053	480,910	357,971	58,332	34,072	729,299
<b>Cash EOP</b>	<b>480,910</b>	<b>357,971</b>	<b>58,332</b>	<b>34,072</b>	<b>729,299</b>	<b>3,934,169</b>

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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