

FOR THE
LOVE
of **SEED**



Quarterly Report

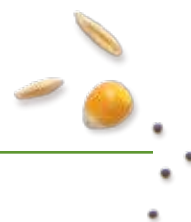
FOR THE THREE MONTHS ENDED DECEMBER 31, 2016

A decorative graphic in the top right corner of the page, composed of various types of seeds and grains. It includes a curved line of bright yellow corn kernels, a larger area of light brown wheat or barley grains, and a section of dark brown, possibly flax or chia, seeds. The arrangement is organic and artistic, set against a plain white background.

MANAGEMENT'S **DISCUSSION** AND ANALYSIS REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2016



CANTERRA SEEDS HOLDINGS LTD. (the Company) is a recognized leader in the pedigreed seed industry. Headquartered at 201–1475 Chevrier Boulevard in Winnipeg, Manitoba, the Company is committed to delivering high quality seed to its customers throughout Western Canada. The consolidated financial statements of the Company that follow are as at, and for the three months ended December 31, 2016.

CANTERRA SEEDS reports a net loss for the three months ended December 31, 2016 of \$1,343,743. This compares to the December 31, 2015 results where the Company recorded a net loss of \$883,250 for the same three-month period.

1. Introduction

The following Management's Discussion and Analysis (MD&A) provides information which is supplementary to the CANTERRA SEEDS HOLDINGS LTD. results of operations and financial position. The MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes to the financial statements for the three-month period ending December 31, 2016. The financial data in this report and in the financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB).

All amounts reported both in the MD&A and in the consolidated financial statements are in Canadian currency and the consolidated financial statements were authorized for issue by the Company's Audit Committee and Board of Directors on February 7, 2017.

2. Forward-Looking Information

Certain statements in this MD&A may constitute forward-looking statements. These forward-looking statements can generally be identified by the use of statements that include the phrases such as "believe," "expect," "anticipate," "intend," "plan," "likely," "will" or similar words or phrases. Similarly, statements that describe the Company's objectives, plans or goals are, or may be, forward-looking statements. These forward-looking statements are based on the Company's current expectations and its projections about future events. However, whether actual results and developments will conform to the Company's expectations and projections is subject to a number of risks and uncertainties. These include, among other things, the risks and uncertainties associated with seed production, product performance, competition, poor weather, commodity prices, credit and foreign exchange risk. These are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of the Company's forward-looking statements. Other known and unpredictable factors could also harm results. Consequently, there can be no assurance that

the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

3. Results of Operations – Three Months Ended December 31

Sales and Gross Profit

CANTERRA SEEDS records revenue on the sale of canola, corn and soybeans when the product is shipped and delivered to the Company's customer. While these products are ordered and delivered at various times between the months of October to June, the product will not be planted until spring with plantings occurring mainly in April and May. When deliveries take place and when, therefore, revenue is recorded for canola, corn and soybeans is dependent on a number of factors, both internal and external to CANTERRA SEEDS. These include the availability of warehouse space, seed treating capacity, trucking for deliveries, timing of quality testing and of course, when the customer wants the product on their premises. As an example, for the December 31, 2015 period, no corn or soybeans were delivered, but some canola was delivered to customers. For the current year, there was no canola delivered but small amounts of corn and soybeans were delivered. This change in the timing of deliveries was the main reason sales decreased by \$2.56 million, from \$3.38 million during the three months ended December 31, 2015, to \$0.82 million for the three months ended December 31, 2016.

In addition, the other main component of sales from October 1 to December 31 is the recording of royalties relating to winter seeded cereal crops. These sales were lower for the three months ended December 31, 2016 than they were for the prior year. The main reason for this is that market conditions continue to be extremely poor for winter wheat seeding. Wheat commodity prices are low and in general, producers do not feel that the potential additional yield is worth seeding any winter wheat at this time. Instead, they would prefer to closely watch the commodity markets and plant what they feel will be the most profitable alternative in the spring. As such, the amount of acres seeded to winter wheat in Western Canada in the fall of 2016 were lower than the acres seeded to winter wheat in the fall of 2015.

The reduction in seed sales was the main reason why gross profit is lower by \$0.54 million. Gross profit has reduced from \$0.64 million in 2015/16, to \$0.1 million in 2016/17. The gross profit percentage was also lower for the quarter. It reduced from 19.1% for the three months ended December 31, 2015, to 12.6% for the three months ended December 31, 2016. This reduction is due to the change in the mix of sales year to year. Each alternative seed sale (canola, corn, soybeans, royalties, stock seed) have very different margins for the Company.

CANTERRA SEEDS HOLDINGS LTD.

MANAGEMENT’S DISCUSSION AND ANALYSIS REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2016



Other Revenue

The other revenue has increased by \$111 thousand, from \$69 thousand to \$180 thousand. This increase is almost exclusively due to the timing of receiving co-promotional funding from the Company’s key partners for marketing initiatives during the year.

Operating, General and Administrative Expenses

These expenses have increased by \$83 thousand or 9.2%, from \$908 thousand in 2015/16 to \$991 thousand in 2016/17. The biggest reason for this is the continued growth in the Company with the biggest portion of the increase relating to additional Advertising and Promotion expenses.

Loss from Joint Ventures

This amount relates to CANTERRA SEEDS’ 50% joint venture in Meridian Seeds, along with the 30% joint venture in Limagrain Cereals Research Canada. For Meridian Seeds, this quarter is generally not a significant revenue generator. As with the pedigreed side of the CANTERRA SEEDS seed business, if Meridian Seeds has any substantial revenue during this quarter it generally comes from the recording of royalties on winter seeded varieties. While Meridian Seeds did record some revenue on these royalties, as with Western Canada, winter wheat acreage was significantly lower than it was in the past years. Meridian Seeds has grown considerably over the last few years, and with this, the operating expenses of the Company have increased significantly. Higher operating expenses, along with lower sales and margins for the quarter have caused a higher loss from this joint venture.

While the Limagrain Cereals Research Canada joint venture was in operation during the quarter ended December 31, 2015, it was still in its infancy. At that time, the venture had no office and only one employee, the CEO. Now, the Company has three full-time staff along with a handful of term employees and an office in Saskatoon. This translates to higher expenses, and with the Company still in its early stages, it has no revenues, creating an increased loss in the quarter ended December 31, 2016.

Overall, therefore, the loss from the joint ventures increased by \$116 thousand from \$55 thousand for the three-month period ending December 31, 2015, to \$171 thousand for the same three-month period ending December 31, 2016.

Depreciation and Amortization

Has increased from \$39 thousand to \$55 thousand due to the addition of capital and variety rights fees during the year.

Salaries, Wages and Benefits

Has reduced by \$55 thousand from \$859 thousand for the three-month period ended December 31, 2015, to \$804 thousand for the three-month period ended December 31, 2016. The main reason for this reduction is accrual adjustments made that increased the 2015 expenses and reduced the 2016 expenses during the quarter.

Interest

Has increased from \$1 thousand to \$4 thousand for the three-month period ending December 31 – no significant change.

4. Summary of Quarterly Financial Information – Restated

Selected Quarterly Financial Information Consolidated
(\$’000s except per share amounts)

	2016/17 Q1	2015/16 Q4	2015/16 Q3	2015/16 Q2	2015/16 Q1	2014/15 Q4	2014/15 Q3	2014/15 Q2
Total revenue	817	1,874	5,955	22,563	3,383	1,821	12,117	15,123
Net income (loss)	(1,344)	(438)	(238)	2,493	(883)	(153)	633	1,323
Earnings (loss) per share (diluted)	(0.18)	(0.06)	(0.03)	0.33	(0.12)	(0.03)	0.12	0.25

CANTERRA SEEDS sells agriculture seed of a number of different crop types. Sales orders for canola, corn and soybeans occur from October until June. Delivery of these sales generally takes place from December until June, as most growers prefer to defer delivery until a date closer to their time of seeding. The majority of the deliveries and sales take place in the months of February to April (Q2 & Q3). The October to December quarter consists mainly of the recording of royalties for fall seeded cereal varieties, along with some early delivered canola, corn and soybean sales.

The financial quarter Q2, from January to March, is made up almost solely of canola, corn and soybean deliveries and sales. Q3 sales consists of additional canola, corn and soybean sales, sales of stock seed and sales of registered and certified CANTERRA SEEDS licensed seed. The quarter consisting of the months July to September (Q4) generally includes only royalties collected on sales of CANTERRA SEEDS licensed seed along with any adjustments on sales recorded during the previous three quarters.

CANTERRA SEEDS HOLDINGS LTD.

MANAGEMENT’S DISCUSSION AND ANALYSIS REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2016



5. Liquidity and Capital Resources

The Company’s cash and short-term investment position has increased by \$6.46 million for the three months ended December 31, 2016. The current cash and short-term investment position is also \$3.74 million higher than it was as at December 31, 2015.

Cash provided by operating activities during the year added \$6.32 million. The major increase of \$13.51 million is due to the buildup of deferred revenue. This deferred revenue relates to deposits made by CANTERRA SEEDS customers for canola, corn and soybeans, which will be delivered prior to the 2016 seeding season over the next six months. In addition, accounts receivable reduced by \$1.61 million from the end of September, 2016 as payments were received.

These positive influences to cash were partially offset due to an increases in inventory and prepaid expenses (mainly prepaid deposits for canola, corn and soybean inventory) totalling to \$6.32 million, as the Company sets up canola, corn and soybean inventory for sale over the next two quarters. In addition, accounts payable was reduced by \$0.96 million, also reducing cash. Finally, there has been a cash loss from operations in the quarter totalling to \$1.52 million.

There was \$0.2 million of cash provided by financing activities during the quarter as the Company was repaid for a portion of an inter-company loan from an affiliated company.

The cash used for investing activities was \$66 thousand, as the Company had a small amount of purchases of long term assets during the quarter.

The main reason that the cash is \$3.74 million higher than on December 31, 2015, is due to additional customer deposits made for canola, corn and soybeans during the three-month period.

6. Outstanding Share Data

Issued securities as of February 7, 2017 are as follows:

Issued	Book Value
7,551,147 Class A common shares	\$12,109,827
2,118,000 Class B series 1 shares	\$468,001

During the 2015/16 fiscal period, an additional 6,000 Class B preferred shares were distributed for an investment totalling to \$6,000. No other new shares were sold out of treasury during the past 12 months.

7. Financial Instruments

A very small portion of the Company’s revenues and a fairly small portion of the Company’s expenditures are denominated in U.S. dollars. The Company is therefore exposed to currency fluctuations on transactions denominated in U.S. dollars. Currency fluctuations may impact on the profitability of the Company, specifically for CANTERRA SEEDS who buys more U.S. dollars than it would earn when the Canadian exchange rate is weaker compared to the U.S. dollar it will work to reduce margins of the Company. This risk is managed, where practicable, through the use of foreign exchange forward contracts to fix the exchange rates on future net foreign currency cash outflows along with fixed Canadian \$ priced contracts for bare canola seed. The Company does not hold or issue derivative contracts for speculative purposes. As at December 31, 2016 CANTERRA SEEDS has no outstanding foreign currency forward contracts in place.

8. Outlook

Similar to last year, commodity markets remain bearish for most if not all crop types. Due to this, decisions on which crops to plant for the 2017 crop year have been delayed, while growers determine which crops will create the optimal bottom line on their farms.

With the canola business, CANTERRA SEEDS is in an extremely competitive environment. In order to succeed and flourish in this market, the Company needs to focus on its critical success factors. Firstly, it is critical that the Company distributes products that are of impeccable quality. To this end, CANTERRA SEEDS has implemented a quality control policy that is of the highest standard in the industry. It ensures that the quality of the bagged canola not only meets the standards set by the Canada Seeds Act, but consistently exceeds the competition in the market.

Secondly, it is critical that the Company continues to introduce “leading edge” canola hybrids into the market. The Company has partnerships with several of the top canola breeders in Western Canada, which ensures that only hybrids that meet or exceed the market standard are introduced.

Thirdly, as explained in the risk section above, with canola there is always the risk of inventory obsolescence. This could be due to a loss of germination, or it could be due to the fact that the variety is no longer competitive in the western Canadian agriculture market. The Company proactively manages each of its varieties through their life cycle, in order to keep these risks to a minimum.

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2016



Finally, it is critical that the Company is able to ensure its canola products are accessible to as many growers as possible. CANTERRA SEEDS has worked diligently to continually improve the corporate brand and canola distribution footprint, ensuring their canola can be accessed quickly and easily at a local retail.

For the 2016/17 fiscal year, no canola deliveries took place prior to December 31, 2016. However, orders of canola product were robust and will translate to sales over the next two quarters. In addition, while there is a delay in cropping intentions, it is certainly anticipated that canola will be the choice for a significant portion of this undecided acreage. The Company has readily available inventory of leading edge hybrid and open pollinated products to meet this anticipated demand.

With the corn and soybeans business, CANTERRA SEEDS partners with Pride Seeds. Pride Seeds is part of the AgReliant brand of companies, which is one of the top breeders and retailers of corn and soybean products in North America. With an extensive breeding effort and with high quality controls, they promise to bring some of the top products to the western Canadian market. CANTERRA SEEDS brings its extensive seed distribution network into this relationship, which ensures that these products are available to growers throughout Western Canada.

Deliveries of corn and soybeans have already started for the 2017 crop year, and orders for this product have increased substantially from 2016, when CANTERRA SEEDS first started selling the Pride Seeds products. This will translate to additional sales over the next few months.

For the pedigreed seed business, CANTERRA SEEDS once again focuses on the critical success factors of the business. When it comes to accessing leading edge varieties, the Company has been extremely successful on a number of fronts. Firstly, CANTERRA SEEDS has been very successful at acquiring some of the top varieties that were available from the public breeding entities like Agriculture and Agri-Food Canada and the Crop Development Centre. Secondly, CANTERRA SEEDS has entered into partnerships with public breeders on specific pedigreed programs, where for economic and logistic support, it retains the first right for products released from the program. Thirdly, the Company has run an extensive field testing program where it has partnered with some of the top private pedigreed breeders in the world. This gives CANTERRA SEEDS the exclusive rights to varieties that come out of this program for registration. Lastly, as has been mentioned above, the Company is a 30% partner in a cereal breeding venture with Vilmorin USA Corp. named Limagrain Cereal Research Canada. This entity will soon be releasing new cereal varieties into the market, and CANTERRA SEEDS will have first right to the varieties that are released out of this program.

On the distribution side for pedigreed seed, CANTERRA SEEDS ensures that it partners with the premier seed growers in Western Canada. Currently the Company has 177 seed growers throughout the prairies that are actively growing and selling CANTERRA SEEDS licensed varieties. The Company will continue to add growers where needed and as required, to ensure that farmers throughout the region will have access to the highest quality CANTERRA SEEDS product available

CANTERRA SEEDS has gained access to some very exciting new pedigreed products. CANTERRA SEEDS has budgeted for a significant increase in tech fee royalties for the 2016/17 fiscal year and currently anticipates to meet this target for the year.

The expectation is that CANTERRA SEEDS is well positioned to continue to achieve financial success, both for the 2016/17, as well as future years.

9. Advances to Related Affiliates

There are currently no outstanding advances to related affiliates.

10. Responsibilities, Control and Policies

Management's Responsibility for Financial Reporting

The consolidated financial statements, the MD&A and all other information in this interim report are the responsibility of Management and have been reviewed and approved by the Board of Directors.

Management, in accordance with International Financial Reporting Standards, has prepared the consolidated financial statements. The MD&A has been prepared in accordance with the requirements of securities regulators. The financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the financial statements and MD&A are presented fairly in all material respects.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the unaudited interim consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee, appointed by the Board of Directors, is financially literate and is fully comprised of independent directors. The Audit Committee meets periodically with management to review the unaudited interim consolidated financial statements, the MD&A, auditing matters and financial reporting issues.

MANAGEMENT’S DISCUSSION AND ANALYSIS REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2016



The Audit Committee also discusses internal controls over the financial reporting process and ensures that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the unaudited interim consolidated financial statements as presented by management. The Audit Committee also reviews and makes recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its considerations when it approves the consolidated financial statements and MD&A for issuance to shareholders.

Meyers Norris Penny LLP, external auditors designated by the shareholders, meets annually with the Audit Committee to discuss audit activities, financial reporting matters and other related subjects.

This report and the unaudited interim consolidated financial statements were reviewed by the Company’s Audit Committee and approved by the CANTERRA SEEDS Board of Directors on February 7, 2017.

Disclosure Controls

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures for the Company. The disclosure controls and procedures have been conducted under the CEO’s and CFO’s supervision, to provide reasonable assurance that the material information relating to the Company is known to management in the period in which the interim filings are made.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2016 AND 2015



Consolidated Statements of Financial Position

	December 31, 2016 <i>Unaudited</i>	December 31, 2015 <i>Unaudited</i>	September 30, 2016 <i>Audited</i>
	\$	\$	\$
Assets			
Current			
Cash	12,191,720	8,453,085	5,728,884
Accounts receivable	818,560	1,113,147	2,427,294
Income taxes receivable	119,223	—	—
Inventory (note 5)	10,297,981	5,961,136	4,413,501
Prepaid expenses and deposits	3,781,643	4,797,053	3,347,718
	27,209,127	20,324,421	15,917,397
Property and equipment	531,242	321,447	495,646
Intangible assets	656,827	617,914	681,177
Deferred tax asset	148,153	54,492	148,153
Investment in joint venture	3,022,667	3,298,112	3,193,548
Advances to related company (note 6)	—	752,761	203,719
	31,568,016	25,369,147	20,639,640
Liabilities			
Current			
Accounts payable and accruals	5,269,210	6,239,673	6,233,286
Deferred revenue (note 7)	13,514,113	6,731,866	—
Income taxes payable	—	—	277,918
	18,783,323	13,153,694	6,511,204
Shareholders' Equity			
Share capital (note 8)	12,577,828	12,571,828	12,577,828
Deficit	188,142	(375,098)	508,152
Contributed surplus	18,723	18,723	1,531,885
	12,784,693	12,215,453	14,128,436
Total Liabilities and Equity	31,568,016	25,369,147	20,639,640

Approved on behalf of the board

James Wilson, Director

Lloyd Affleck, Director

The accompanying notes are an integral part of these financial statements.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2016 AND 2015



Consolidated Statements of Comprehensive Income

Three months ended

	2016 <i>Unaudited</i>	2015 <i>Unaudited</i>
	\$	\$
Sales	817,242	3,382,986
Cost of sales	714,299	2,735,964
Gross profit	102,943	647,022
Other revenue (note 4)	180,432	69,360
	283,375	716,382
Operating, general and administrative	991,162	907,690
Loss from joint venture	170,881	54,475
Depreciation	54,539	38,944
Salaries, wages and benefits	803,861	858,473
Interest	3,816	1,406
	2,024,259	1,860,988
Loss from operations before taxes	(1,740,884)	(1,144,606)
Income tax recovery	397,141	261,356
Loss and comprehensive loss	(1,343,743)	(883,250)
Loss per share		
Basic and fully diluted (note 10)	(0.18)	(0.12)

The accompanying notes are an integral part of these financial statements.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2016 AND 2015



Consolidated Statements of Cash Flows

	2016 <i>Unaudited</i>	2015 <i>Unaudited</i>
	\$	\$
Cash provided by (used for) the following activities:		
Operating activities		
Net loss	(1,343,743)	(883,250)
Depreciation of plant and equipment	29,690	19,703
Depreciation of intangible assets	24,849	19,242
Loss from joint venture	170,881	54,475
Income tax recovery accrual	(397,141)	(261,356)
	(1,515,464)	(1,051,186)
Changes in working capital accounts		
Accounts receivable	1,608,734	760,375
Inventory	(5,884,480)	(2,667,772)
Prepaid expenses and deposits	(433,925)	(394,496)
Accounts payable and accruals	(964,076)	46,975
Deferred revenue	13,514,113	6,731,866
	6,324,902	3,425,312
Financing activities		
Repayments (advances) to related company	203,719	(7,561)
	203,719	(7,561)
Investing activities		
Purchases of property and equipment	(65,285)	(13,471)
Acquisition of intangible assets	(500)	(401,250)
	(65,785)	(414,721)
Increase in cash resources	6,462,836	3,003,030
Cash and investments, beginning of period	5,728,884	5,450,055
Cash and investments, end of period	12,191,720	8,453,085

The accompanying notes are an integral part of these financial statements.

CANTERRA SEEDS HOLDINGS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2016 AND 2015



Consolidated Statements of Changes in Equity

Unaudited

	Share capital	Contributed surplus	Surplus (deficit)	Total
	\$	\$	\$	\$
Balance, September 30, 2015	12,571,828	18,723	508,152	13,098,703
Comprehensive income	—		(883,250)	(883,250)
Balance, December 31, 2015	12,571,828	18,723	(375,098)	12,215,453
Balance, September 30, 2016	12,577,828	18,723	1,531,885	14,128,436
Comprehensive income	—	—	(1,343,743)	(1,343,743)
Balance, December 31, 2016	12,577,828	18,723	188,142	12,784,693

The accompanying notes are an integral part of these financial statements.

CANTERRA SEEDS HOLDINGS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2016 AND 2015



1. Incorporation and Operations

Entity Information

CANTERRA SEEDS HOLDINGS LTD. (the “Company”) was incorporated under the laws of the Province of Saskatchewan on March 14, 1996. The head and registered office for the Company is located at 201–1475 Chevrier Boulevard, Winnipeg, Manitoba, Canada R3T 1Y7. The Company purchases, produces, and distributes seed varieties and related technologies. Due to the seasonal nature of the agricultural industry, the majority of seed sales occur during the months of October to June. This same seasonal nature significantly affects the statement of financial position on a quarterly basis as accounts receivable, inventory and accounts payable and accrued liabilities have significant swings depending on the canola sales cycle.

The interim consolidated financial statements of the Company reflect the operations and financial position of the Company and its wholly-owned subsidiaries: CANTERRA SEEDS (2002) Ltd. (a Canadian corporation) and CANTERRA SEEDS (USA) Ltd. (a U.S. company), and its joint venture investment Meridian Seeds LLC (a U.S. company), which is accounted for using the equity method.

2. Basis of Presentation and Continuing Operations

Statement of Compliance

The unaudited condensed consolidated interim financial statements (or “consolidated financial statements”) of the Company as at December 31, 2016 have been prepared in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). These condensed financial statements do not include all of the information required for consolidated financial statements and use the accounting policies consistent with the annual audited consolidated financial statements for the year ended September 30, 2016.

These interim condensed consolidated financial statements for the three-month period ended December 31, 2016 and 2015 were recommended for approval by the Audit Committee and were approved and authorized for issue by the Board of Directors on February 7, 2017.

3. Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue and profits from the sale of seed when the seed has been shipped. Volume related royalty revenue is recognized in the period in which the sale is reported to the Company by the grower. Scientific Research and Experimental Development credits are recognized when the related expenses have been incurred. Deferred revenue is taken into income in the period in which it is earned. Contract services and program payments are recognized when earned.

Key Accounting Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of property and equipment. Scientific research and experimental development tax credit claims are based on methodologies and assumptions applied by management in previous successful claims. Actual results may differ from these estimates.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

4. Other Revenue

Three Months Ended

	December 31, 2016	December 31, 2015
	\$	\$
Interest and investment income	13,588	7,990
Other	130,545	11,069
Scientific research and experimental development tax refundable	36,299	50,301
	180,432	69,360

CANTERRA SEEDS HOLDINGS LTD.

INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2016 AND 2015



5. Inventory

	December 31, 2016	December 31, 2015	September 30, 2016
	\$	\$	\$
Finished goods	3,368,929	1,697,625	1,086,962
Raw materials	6,929,052	4,263,511	3,326,539
	10,297,981	5,961,136	4,413,501

The cost of inventories recognized as an expense and included in cost of sales in 2016 amounted to \$Nil (2015 – \$942,302).

6. Advances to Related Company

	December 31, 2016	December 31, 2015	September 30, 2016
	\$	\$	\$
Meridian Seeds LLC	–	–	6,359
Limagrain Cereals Research Canada	–	752,761	197,360

Advances to related company are unsecured, non-interest bearing and have no fixed terms of repayment. Meridian Seeds, LLC, a U.S. Limited Liability Corporation is a 50% joint venture interest and Limagrain Cereals Research Canada a Canadian partnership is a 30% joint venture interest.

7. Deferred Revenue

Deferred revenue is comprised of deposits received from customers for which the related product has not been shipped as at December 31, 2016 or December 31, 2015.

8. Share Capital

Authorized

Unlimited number of Class A voting common shares.

Unlimited number of Class B shares, non-voting, non-participating, redeemable at the option of the Company if the shareholder fails to fully pay for shares, fails to exercise share purchase options, or if the shareholder causes the corporation to have its rights under any license agreement terminated.

Unlimited number of Class C shares without nominal or par value, non-voting, and non-redeemable.

	December 31, 2016	December 31, 2015	September 30, 2016
Issued	\$	\$	\$
Common shares			
7,551,147 Class A common shares (2015 – 5,285,803)	12,109,827	12,109,827	12,109,827
2,118,000 Class B series 1 shares (2015 – 2,112,000)	468,001	462,001	468,001
	12,577,828	12,571,828	12,577,828

There were no share transactions through treasury for the three-month periods ended December 31, 2016 and December 31, 2015.

During the 2016 fiscal year, the Company issued 6,000 Class B shares at a subscription price of \$1 per share for cash consideration of \$6,000.

CANTERRA SEEDS HOLDINGS LTD.

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9. Interest in Joint Ventures

The Company, through a wholly-owned subsidiary, has an investment in a joint venture, Meridian Seeds LLC, in which it shares 50% control. Investments in this company which are subject to joint control are accounted for using the equity method.

The following amounts represent the results and financial position of Meridian Seeds LLC for the three months ended December 31, 2016 and 2015. The amounts below are in US\$.

	2016	2015
	\$	\$
Current assets	725,049	321,222
Long-term assets	33,422	35,329
Current liabilities	246,387	51,627
Revenues	56,533	89,922
Expenses	203,158	163,124
Net loss	(146,625)	(73,202)
Cash provided by (used in) operating activities	(217,293)	(187,505)
Cash provided by (used in) investing and financing activities	53,276	(6,295)

The Company has a wholly-owned subsidiary, CANTERRA SEEDS USA LTD. whose investment in Meridian Seeds, LLC, a U.S. Limited Liability Corporation is a 50% joint venture interest.

	2016	2015
	\$	\$
Investment in CANTERRA SEEDS USA LTD.	115,502	1,865

The Company also owns a 30% investment in Limagrain Cereals Research Canada, a cereal breeding and development partnership located in Saskatoon, Saskatchewan. Investments in this company, which are subject to joint control, are accounted for using the equity method.

The following amount represent the results and financial position of Limagrain Cereals Research Canada in CDN\$.

	2016	2015
	\$	\$
Current Assets	8,678,533	11,514,285
Long-term Assets	866,650	–
Current Liabilities	109,022	778,183
Revenues	21,251	–
Expenses	267,760	18,957
Net Loss	(246,509)	(18,957)
Cash provided by (used in) operating activities	(393,011)	–
Cash provided by (used in) investing and financing activities	(96,348)	–

Limagrain Cereals Research Canada is Canadian limited partnership and a 30% joint venture interest.

	2016	2015
	\$	\$
Investment in Limagrain Cereals Research Canada	2,907,165	3,296,247

10. Earnings Per Share

The basic income per share has been calculated based upon the weighted average number of shares outstanding during the period ended December 31, 2016 of 7,551,147 {2015 – 7,551,147}.

11. Commitment

The Company has entered into an agreement to lease its premises to June 2021 and to lease vehicles and equipment to January 2018 with estimated minimum annual payments as follows:

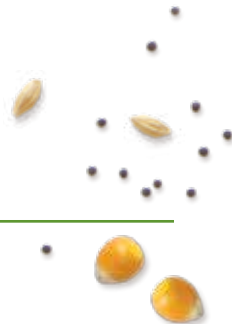
Not later than one year	\$380,220
Later than one year not later than five years	\$774,205

Director and Officer Indemnification

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law.

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12. Capital Management

A wholly-owned subsidiary of the Company has externally imposed capital requirements as governed through its bank credit facilities. As of December 31, 2016 the Company is not in default of these capital requirements and is in good standing in its dealings with its bank.

13. Related Party Transactions

Certain shareholders have entered into transactions with the Company for the purchase and sale of seed and seed products. These transactions were in the normal course of business and were recorded at their exchange amount.

15. Supplemental Cash Flow Information

Interest paid for the three-month period ended December 31, 2016 totalled to \$1,067 (2015 – \$Nil).



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