CANTERRA SEEDS

IT'S ALL ABOUT VARIETY

QUARTERLY REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017

MANAGEMENT'S **DISCUSSION** AND **ANALYSIS REPORT**

CANTERRA SEEDS HOLDINGS LTD.

MANAGEMENT'S **DISCUSSION** AND **ANALYSIS REPORT**

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017

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, 2017.

CANTERRA SEEDS reports a net loss for the three months ended December 31, 2017 of $1,205,047. This compares to the December 31, 2016 results where the Company recorded a net loss of $1,343,743 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, 2017. 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 6, 2018.

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, 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. During the October to December period in 2016, no canola was delivered to customers. The sales for that quarter were almost exclusively deliveries of corn and soybeans. For the current quarter of October to December, a small amount of canola was delivered, in addition to an increase in the deliveries of corn and soybeans. For that reason, sales increased by $2.06 million, from $0.82 million during the three months ended December 31, 2016, to $2.88 million for the three months ended December 31, 2017.

The other 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, 2017 than they were for the prior year, and worked to offset the increased sales described above. 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 acres seeded to winter wheat in Western Canada in the fall of 2017 were once again lower than they were in the fall of 2016.

The increase in seed sales was the main reason why gross profit increased by $0.36 million. Gross profit has increased from $0.1 million in for the three months ended December 31, 2016, to $0.46 million for the three months ended December 31, 2017. The gross profit percentage increased from the prior year, from

12.6% for the three months ended December 31, 2016 to 15.9% for the three months ended December 31, 2017. Each alternative seed sale (canola, corn, soybeans, royalties, stock seed) have very different margins for the Company and the mix of the components of total sales was the main cause of this increase.

Other Revenue

The other revenue reduced by $41 thousand, from $180 thousand to $139 thousand. This reduction is mainly 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 decreased by $25 thousand or 0.3%, from $994 thousand for the three months ended December 31, 2016 to $969 thousand for the three months ended December 31, 2017. While key expenses are anticipated to increase during the current year, the timing of when these were expensed year to year caused this small reduction.

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. These higher operating expenses have caused a higher loss from this joint venture.

The Limagrain Cereals Research Canada joint venture continues to expand its footprint. They have increased their program and with this their level of staff. 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, 2017.

Overall, the loss from the joint ventures increased by $20 thousand from $171 thousand for the three-month period ending December 31, 2016, to $191 thousand for the same three-month period ending December 31, 2017.

Depreciation and Amortization

Has increased from $55 thousand to $67 thousand due to the addition of capital and variety rights fees during the year.

Salaries, Wages and Benefits

Has increased by $127 thousand from $804 thousand for the three-month period ended December 31, 2016, to $931 thousand for the three-month period ended December 31, 2017. During the 2016 quarter, there was a reduction to salary expenses due to accrual adjustments. In addition, more of the full-time positions were filled during the current year's quarter increasing the current costs.

Interest

No change between the years.

4. Summary of Quarterly Financial Information – Restated

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

	2017/18 Q1	2016/17 Q4	2016/17 Q3	2016/17 Q2	2016/17 Q1	2015/16 Q4	2015/16 Q3	2015/16 Q2
Total revenue	2,879	863	5,415	23,168	817	1,874	5,955	22,563
Net income (loss)	(1,205)	(563)	(281)	2,568	(1,344)	(438)	(238)	2,493
Earnings (loss) per share (diluted)	(0.16)	(0.07)	(0.04)	0.34	(0.18)	(0.06)	(0.03)	0.33

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.

5. Liquidity and Capital Resources

The Company's cash and short-term investment position has increased by $3.2 million for the three months ended December 31, 2017.

Cash provided by operating activities during the year added $3.06 million. The major increase of $14.35 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 2017 seeding season, over the next six months. In addition, accounts receivable reduced by $1.28 million from the end of September 2017 as payments were received.

These positive influences to cash were partially offset by increases in inventory and prepaid expenses (mainly prepaid deposits for canola, corn and soybean inventory) totalling to $6.39 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 $4.87 million, also reducing cash. Finally, there has been a cash loss from operations in the quarter totalling to $1.30 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. This was partially offset by an additional investment in the company's joint ventures.

The cash used for investing activities was $60 thousand, as the Company had a small amount of purchases of long-term assets during the quarter.

6. Outstanding Share Data

Issued securities as of February 6, 2018 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

No 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 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, 2017, CANTERRA SEEDS has no outstanding foreign currency forward contracts in place.

8. Outlook

Currently CANTERRA SEEDS has seed orders for canola, corn, soybeans and cereals that are ahead of the sales results for the 2017 crop year. In addition, there appears to be a higher number of acres in which the decision of which crop type has not yet been made. In addition to the regular delay due to the uncertainty of the commodity markets and relative input costs for each crop, the 2017 crop year ended up being a very dry year in many areas of the prairies. In addition, precipitation has not yet been substantial in these same areas over the winter so far. How dry the conditions are at seeding time will be a major factor in which crop types will be seeded on a number of farms.

As always, CANTERRA SEEDS focuses on its critical success factors for each of the crop types it market in. For canola, 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, the Company must continue 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. For the 2018 crop year, CS2300, a big-yielding, Genuity® Roundup Ready® hybrid that features excellent standability, has been introduced to the market. Also, CS2400, an early maturing Genuity Roundup Ready hybrid, has been introduced to the market, giving CANTERRA SEEDS an improved access to markets that are looking for a high-yielding, early maturing product in their rotations. Finally, the Company is introducing CS2500 CL, a high-yielding Clearfield variety to join CS2200 CL in this market. CS2000, CS2100 and CANTERRA 1918 are also strong performing canola products that are available for sale in the 2018 crop year.

Thirdly, with canola there is always the risk of inventory obsolescence. This could be due to a loss of germination, or it could 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 that keep these risks to a minimum.

Finally, it is critical that the Company ensures 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. To that end, CANTERRA SEEDS entered into a direct purchasing agreement with Winfield United which now enables the Company to sell its canola product to more customers beginning for the 2018 crop year.

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.

As mentioned above, corn and soybean sales are going to increase again for the 2018 crop year and are anticipated to continue to increase into the future as CANTERRA SEEDS builds the PRIDE Seed brand throughout Western Canada.

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. Lastly, as has been mentioned above, the Company is a 30% partner with Limagrain, one of the world's largest field seed companies, in a cereal breeding venture 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 178 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 and anticipates future growth in tech fee royalties both for the 2017/18 fiscal year as well as future years.

The expectation is that CANTERRA SEEDS is well positioned to continue to achieve financial success both in 2017/18 and into the future.

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. 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 6, 2018.

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.

CONSOLIDATED **FINANCIAL STATEMENTS**

CANTERRA SEEDS HOLDINGS LTD.

INTERIM CONSOLIDATED **FINANCIAL STATEMENTS**

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2017 AND 2016

THESE FINANCIAL STATEMENTS ARE UNAUDITED AND WERE NOT REVIEWED BY AN AUDITOR

Consolidated Statements of Financial Position

	December 31, 2017 *Unaudited*	December 31, 2016 *Unaudited*	September 30, 2017 *Audited*
	$	$	$
Assets			
Current			
Cash and short-term investments	9,873,520	12,191,720	6,674,824
Accounts receivable	1,621,127	818,560	2,900,276
Income taxes receivable	367,989	119,223	11,123
Inventory (note 5)	9,164,864	10,297,981	5,157,756
Prepaid expenses and deposits	6,133,015	3,781,643	3,746,708
	27,160,515	27,209,127	18,490,687
Property and equipment	607,166	531,242	631,556
Intangible assets	655,055	656,827	637,999
Deferred tax asset	419,015	148,153	419,015
Investment in joint venture (note 9)	2,956,459	3,022,667	3,117,231
Advances to related company (note 6)	3,160	–	231,968
	31,801,370	31,568,016	23,528,456
Liabilities			
Current			
Accounts payable and accruals	4,146,105	5,269,210	9,020,420
Deferred revenue (note 7)	14,352,276	13,514,113	–
Income taxes payable	–	–	–
	18,498,381	18,783,323	9,020,420
Shareholders' Equity			
Share capital (note 8)	12,577,828	12,577,828	12,577,828
Surplus	706,438	188,142	1,911,485
Contributed surplus	18,723	18,723	18,723
	13,302,989	12,784,693	14,508,036
Total Liabilities and Equity	31,801,370	31,568,016	23,528,456

Approved on behalf of the board

James Wilson, Director

Lloyd Affleck, Director

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, 2017 AND 2016

THESE FINANCIAL STATEMENTS ARE UNAUDITED AND WERE NOT REVIEWED BY AN AUDITOR

Consolidated Statements of Comprehensive Income

Three months ended

	2017 ***Unaudited***	**2016** ***Unaudited***
	$	**$**
Sales	2,878,800	817,242
Cost of sales	2,420,223	714,299
Gross profit	458,577	102,943
Other revenue (note 4)	138,765	180,432
	597,342	283,375
Operating, general and administrative	969,067	993,911
Loss from joint venture	191,282	170,881
Depreciation	67,356	54,539
Salaries, wages and benefits	930,548	803,861
Interest	1,002	1,067
	2,159,255	2,024,259
Loss from operations before taxes	(1,561,913)	(1,740,884)
Income tax recovery	356,866	397,141
Loss and comprehensive loss	(1,205,047)	(1,343,743)
Loss per share		
Basic and fully diluted (note 10)	(0.16)	(0.18)

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, 2017 AND 2016

THESE FINANCIAL STATEMENTS ARE UNAUDITED AND WERE NOT REVIEWED BY AN AUDITOR

Consolidated Statements of Cash Flows

	2017 *Unaudited*	2016 *Unaudited*
	$	$
Cash provided by (used for) the following activities:		
Operating activities		
Net loss	(1,205,047)	(1,343,743)
Depreciation of plant and equipment	39,412	29,690
Depreciation of intangible assets	27,944	24,849
Loss from joint venture	191,282	170,881
Income tax recovery accrual	(356,866)	(397,141)
	(1,303,275)	(1,515,464)
Changes in working capital accounts		
Accounts receivable	1,279,149	1,608,734
Inventory	(4,007,108)	(5,884,480)
Prepaid expenses and deposits	(2,386,306)	(433,925)
Accounts payable and accruals	(4,874,315)	(964,076)
Deferred revenue	14,352,276	13,514,113
	3,060,421	6,324,902
Financing activities		
Repayments to related company	228,808	203,719
Contributions to long-term equity investments	(30,511)	–
	198,297	203,719
Investing activities		
Purchases of property and equipment	(15,022)	(65,285)
Acquisition of shares in joint venture	(45,000)	(500)
	(60,022)	(65,785)
Increase in cash resources	3,198,696	6,462,836
Cash and short-term investments, beginning of period	6,674,824	5,728,884
Cash and short-term investments, end of period	9,873,520	12,191,720

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

Consolidated Statements of Changes in Equity

Unaudited

	Share capital	Contributed surplus	Surplus (deficit)	Total
	$	$	$	$
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
Balance, September 30, 2017	12,577,828	18,723	1,911,485	14,508,036
Comprehensive income	–	–	(1,205,047)	(1,205,047)
Balance, December 31, 2017	12,577,828	18,723	706,438	13,302,989

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, 2017 AND 2016

THESE FINANCIAL STATEMENTS ARE UNAUDITED AND WERE NOT REVIEWED BY AN AUDITOR

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, most 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 investments Limagrain Cereals Research Canada and Meridian Seeds LLC (a U.S. company), which are both 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, 2017 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 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, 2017.

These interim condensed consolidated financial statements for the three-month period ended December 31, 2017 and 2016 were recommended for approval by the Audit Committee and were approved and authorized for issue by the Board of Directors on February 6, 2018.

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, 2017	December 31, 2016
	$	$
Interest and investment income	15,057	13,588
Other	75,750	130,545
Scientific research and experimental development tax refundable	47,958	36,299
	138,765	180,432

5. Inventory

	December 31, 2016	December 31, 2015	September 30, 2016
	$	$	$
Finished goods	4,299,560	3,368,929	1,907,102
Raw materials	4,865,304	6,929,052	3,250,654
	9,164,864	10,297,981	5,157,756

The cost of inventories recognized as an expense and included in cost of sales in 2017 amounted to $605,582 (2016 – $Nil).

6. Advances to Related Company

	December 31, 2017	December 31, 2016	September 30, 2017
	$	$	$
Meridian Seeds LLC	362	–	35,067
Limagrain Cereals Research Canada	2,798	–	196,901
	3,160	–	231,968

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, 2017 or December 31, 2016.

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, 2017	December 31, 2016	September 30, 2017
Issued	$	$	$
Common shares			
7,551,147 Class A common shares (2016 – 7,551,147)	12,109,827	12,109,827	12,109,827
2,118,000 Class B series 1 shares (2016 – 2,118,000)	468,001	468,001	468,001
	12,577,828	12,577,828	12,577,828

There were no share transactions through treasury for the three-month periods ended December 31, 2017 and December 31, 2016.

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, 2017 and 2016. The amounts below are in US$.

	2017	2016
	$	$
Current assets	1,584,275	725,049
Long-term assets	172,348	58,672
Current liabilities	542,337	246,387
Revenues	107,534	56,533
Expenses	340,039	203,158
Net loss	(232,505)	(146,625)
Cash provided by (used in) operating activities	251,301	(217,293)
Cash provided by (used in) investing and financing activities	(13,510)	53,276

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. These numbers are converted to Canadian $.

	2017	2016
	$	$
Investment in CANTERRA SEEDS USA LTD.	715,778	115,502

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 for the three months ended December 31, 2017 and 2016. The amounts below are in Canadian $.

	2017	2016
	$	$
Current assets	5,742,608	8,678,533
Long-term assets	1,570,812	866,650
Current liabilities	95,871	109,022
Revenues	–	–
Expenses	422,982	259,081
Net loss	(422,982)	(259,081)
Cash provided by (used in) operating activities	(556,748)	(393,011)
Cash provided by (used in) investing and financing activities	(76,586)	(96,348)

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

	2017	2016
	$	$
Investment in Limagrain Cereals Research Canada	2,240,681	2,907,165

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, 2017 of 7,551,147 (2016 – 7,551,147).

11. Commitments

The Company has entered into an agreement to lease its premises to June 2021 and to lease vehicles and equipment to March 2022 with estimated minimum annual payments as follows:

Not later than one year	$365,441
Later than one year not later than five years	$634,830

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.

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, 2017, 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.

14. Supplemental Cash Flow Information

Interest paid for the three-month period ended December 31, 2017 totalled to $1,002 (2016 – $1,067).

CANTERRA
SEEDS

201–1475 Chevrier Boulevard
Winnipeg, Manitoba R3T 1Y7
CANTERRA.COM