

# Q1 • 2020 REPORT



# Management's Discussion and Analysis Report



# Management's Discussion and Analysis Report

REPORT FOR THE THREE MONTHS ENDED DECEMBER 31, 2019

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 for the three months ended December 31, 2019.

Agriculture seed sales is a very seasonal business in which sales are generally only recorded when the product is delivered to the customer, which is usually pretty close to the date of seeding in April or May. With this in mind, CANTERRA SEEDS reports a net loss for the three months ended December 31, 2019 of \$1,550,056. This compares to the December 31, 2018 results where the Company recorded a net loss of \$1,658,951 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, 2019. 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 20, 2020.

## 2. FORWARD-LOOKING INFORMATION

Certain statements in this MD&A may constitute forward-looking statements. These forward-looking statements can generally be identified with 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 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 soybean seed when the product is shipped and delivered to the Company's seed retailers. While these products are ordered and delivered at various times between the months of October to May, the product will not be planted until spring, with seeding occurring mainly in April and May. When deliveries take place and when, therefore, revenue is recorded for canola, corn and soybeans is dependent on many 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 (both the farmer and retailer) wants the product delivered to their operation. During the months of October to December in 2019, no corn, soybean or canola products were shipped during this quarter. This compares similarly to 2018, when only a small amount of corn was delivered to customers. While orders for canola, corn and soybeans have increased in 2019 compared to that in 2018, the normal delay in these deliveries means that these sales will be recorded in future quarters.

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Besides the early deliveries of canola, corn and soybeans, the only other component of sales from October 1 to December 31 is the recording of royalties relating to winter seeded cereal crops. These sales are slightly lower for the three months ended December 31, 2019 than they were for the prior year. Market and environmental conditions were not conducive for winter wheat seeding. Wheat commodity prices are low and in general, producers do not feel that the yield potential justifies seeding winter wheat. In general, they would prefer to closely watch the commodity markets and plant what they feel will be the most profitable alternative in the spring. CANTERRA SEEDS did not introduce any new winter wheat varieties to the market in 2019, which would have generally increased sales.

Overall, sales reduced from \$164 thousand in 2018 to \$30 thousand in 2019.

The reduction in seed sales caused the gross profit to reduce by \$13 thousand. Gross profit has reduced from \$24 thousand for the three months ended December 31, 2018, to \$11 thousand for the three months ended December 31, 2019. Due to the mix of sales, mainly all winter wheat tech fees in 2019 and a small amount of corn sales in 2018, the gross profit percentage has increased from the prior year, from 15.0% for the three months ended December 31, 2018 to 38.7% for the three months ended December 31, 2019.

## OTHER REVENUE

The other revenue reduced by \$41 thousand, from \$118 thousand to \$77 thousand. This reduction is mainly due to timing of reimbursements from partners for various initiatives year to year.

## OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES

These expenses have decreased by \$49 thousand or 5.1%, from \$960 thousand for the three months ended December 31, 2018 to \$911 thousand for the three months ended December 31, 2019. The Company has reduced expenses in some very specific areas while ensuring it continues to invest in areas that will drive sales both now and into the future.

## LOSS FROM JOINT VENTURES

This amount relates to CANTERRA SEEDS' 50% joint venture in Meridian Seeds, along with the 30% joint venture in LCRC. For Meridian Seeds, this quarter generates little revenue. As with the pedigreed seed side of the CANTERRA SEEDS business, if Meridian Seeds has any substantial revenue during this quarter it generally comes from the recording of royalties for winter seeded cereals. While Meridian Seeds did record some revenue on these royalties, as with Western Canada, winter wheat acreage is not significant in the areas where it has winter wheat products to sell to farmers. Meridian Seeds has been able to reduce its operating expenses which overall has reduced the net loss recorded for this quarter.

The Limagrain Cereals Research Canada joint venture is operating at full capacity and while expenses increase on an annual basis there are no dramatic increases in staffing or projects. As with last year, LCRC is not recording any revenues, so the loss is similar to that recorded in 2018.

Overall, the loss from the two joint ventures reduced by \$45 thousand, from \$387 thousand for the three-month period ending December 31, 2018, to \$342 thousand for the same three-month period ending December 31, 2019.

## DEPRECIATION AND AMORTIZATION

Has not changed and is recorded at \$62 thousand both years.

## SALARIES, WAGES & BENEFITS

Has reduced by \$110 thousand from \$881 thousand for the three-month period ended December 31, 2018, to \$771 thousand for the three-month period ended December 31, 2019, a reduction of 12.4%. The Company has restructured its staffing to better match the current realities of the business.

## INTEREST

No expense occurred in either 2018 or 2019.

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## 4. SUMMARY OF QUARTERLY FINANCIAL INFORMATION – Restated

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

	2019/20 Q1	2018/19 Q4	2018/19 Q3	2018/19 Q2	2018/19 Q1	2017/18 Q4	2017/18 Q3	2017/18 Q2
Total revenue	29	2,249	6,418	17,072	164	3,321	4,283	20,796
Net income (loss)	(1,550)	(241)	(609)	1,145	(1,659)	(138)	(519)	2,038
Earnings (loss) per share (diluted)	(0.21)	(0.03)	(0.08)	0.15	(0.22)	(0.02)	(0.07)	0.27

CANTERRA SEEDS principal business is the distribution and sale of seed for the main field crops grown in Western Canada including canola, corn and soybeans which occurs from October until May. Delivery of these sales generally takes place from December until May, as farmers prefer to defer delivery until a date closer to their time of seeding. Most 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 mainly of canola, corn and soybean seed deliveries and sales, along with some early deliveries of pedigreed products. Q3 sales consist of additional canola, corn and soybean sales, along with the balance of the spring stock seed and registered and certified sales of 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 \$1.16 million for the three months ended December 31, 2019.

Cash provided by operating activities during the year provided \$0.92 million. The main increase is deposits made by customers for purchases of CANTERRA SEEDS products for the 2020 crop year. This increases totals to \$15.09 million. In addition, payments were received on outstanding Accounts Receivable adding \$1.16 million. These were mostly offset by some uses of cash as follows:

- The Company increased its inventory and prepaid expenses (mainly prepaid deposits for canola, corn and soybean inventory) by \$9.08 million in order to have canola, corn and soybeans products available for sale for the 2020 crop year.
- CANTERRA SEEDS paid down outstanding Accounts Payable balances by a total of \$4.52 million

- The loss recorded during the quarter and income tax payments and accruals used an additional \$1.74 million

There was \$0.33 million of cash provided by financing activities during the quarter.

The cash used for investing activities was \$86 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 20, 2020 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 twelve months. A number of share transactions were finalized during the quarter ended December 31, 2019 but none of these transactions occurred from treasury.

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## 7. FINANCIAL INSTRUMENTS

A very small portion of the Company's revenues and expenses are denominated in US dollars. The Company is therefore exposed to currency fluctuations on transactions in US dollars. Currency fluctuations may impact on the profitability of the Company, specifically for CANTERRA SEEDS who buys more US dollars than it would earn when the Canadian exchange rate is weaker compared to the US dollar it will work to reduce margins of the Company. This risk is managed, where practicable, with foreign exchange forward contracts to fix the exchange rates on future net foreign currency cash outflows along with fixed Canadian \$ priced contracts for untreated canola seed. The Company does not hold or issue derivative contracts for speculative purposes. As at December 31, 2019 CANTERRA SEEDS has no outstanding foreign currency forward contracts in place.

## 8. OUTLOOK

For the long-term, the best way to analyze the seed sales at CANTERRA SEEDS is to break the business down into their three methods: (1) canola sales where CANTERRA SEEDS acts as the manufacturer and processor and sells the seed in a CANTERRA SEEDS branded bag, (2) the corn and soybean sales where CANTERRA SEEDS sells a PRIDE Seeds branded product to western Canadian retailers and (3) pedigreed seed sales where the products are owned and distributed by CANTERRA SEEDS seed grower shareholders and the Company collects a tech fee (royalty plus margin) for the grower's right to produce and sell these varieties which are under exclusive license from the breeder to CANTERRA SEEDS.

With canola the Company will continue to focus on the critical success factors:

- The Company will continue to introduce "leading-edge" spring canola hybrids into the Western Canada and US markets. The Company partners with several of the top canola seed and trait developers in Western Canada. This ensures that only those hybrids that meet or exceed the market standard are introduced. CANTERRA SEEDS is selling hybrids that deliver the agronomic traits farmers expect and require such as clubroot and blackleg tolerance, shatter tolerance, Roundup Ready, TruFlex, Clearfield (Non-GMO) and various ranges of maturity, that compete with the best in the market.
- Secondly, the Company will continue to distribute 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 canola seed quality not only meets the standards set by the Canada Seeds Act, but exceeds these standards and the competition in the market.
- Thirdly, there is always the risk of inventory obsolescence with all seed products. This could be due to a drop or decreased germination level, or the variety is no longer competitive in the market. The Company proactively manages the lifecycles of the specific hybrids and varieties as well as following its strict seed quality protocol that keeps these risks to a minimum.
- In particular, it is critical that the Company is vigilant in managing the inventory. This ensures the products are distributed and sold to the farmer meets the quality standards they have come to expect. CANTERRA SEEDS inventory stock continues to meet the industry's quality standards and is competitive in third party seed variety performance trials performed annually throughout Western Canada.
- 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 CANTERRA SEEDS canola hybrids are easily accessible at a local retailer. The Company is now distributing its canola product directly with independent retailers across Western Canada.

CANTERRA SEEDS is now the exclusive western Canadian distribution partner for the PRIDE Seeds brand of corn and soybeans. PRIDE Seeds is part of AgReliant, one of the top breeders and retailers of corn and soybean products in North America. This will mean a significant increase in sales and margins for these crop types for the 2019/20 fiscal period as well as into the future.

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In addition, CANTERRA SEEDS anticipates that with the PRIDE Seeds brand of products the market share and overall quantity of sales will continue to increase for corn and soybeans, due to the Company's focus of the following critical success factors of the business:

- PRIDE Seeds and AgReliant are committed to a solid pipeline of corn products to support the CANTERRA SEEDS portfolio of highly competitive genetics and traits developed specifically for the western Canadian market.
- CANTERRA SEEDS extensive seed distribution network ensures that these products are available to farmers throughout the Prairie provinces.

For the pedigreed seed business, CANTERRA SEEDS enjoyed a record year of growth, sales and earnings for the 2018/19 fiscal year. Long term, the Company will focus on the critical success factors of the business as follows:

- CANTERRA SEEDS will continue to access leading edge varieties by focusing on the following. Firstly, CANTERRA SEEDS has been very successful at acquiring high performing varieties from public breeding entities like Agriculture and Agri-Food Canada, the Crop Development Centre and the University of Alberta. Secondly, the Company is a 30% partner with Limagrain, one of the world's largest and most innovative field seed companies, in a cereal breeding venture named Limagrain Cereal Research Canada. This entity registered its first CWRS and CPS wheat varieties and CANTERRA SEEDS has the rights to these varieties.
- 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 186 seed growers throughout the prairies that are 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.

With the affiliated companies results it is anticipated that for LCRC they will begin to start earning royalty revenue during the current 2019/20 fiscal year and this will build over time. It is also anticipated that a model will be used that will enable LCRC to receive royalties on all acreage seeded with its varieties in the coming years. This will occur while operating expenses are kept fairly stable. Over the next few years therefore, it is anticipated that this loss on investment will reduce and will become income as LCRC continues to expand its market share.

For Meridian Seeds, they focus heavily on their critical success factors which is superior products, strong production and retail partners, along with an experience and well-trained staff. The 2019 calendar year was definitely a struggle for the Company due to a number of factors including, political, environmental and other market forces. However, Meridian Seeds has great products, top-notch staff and excellent markets and is in a great position to reverse this trend and create additional investment income for CANTERRA SEEDS over the next few years.

For net operating expenses, as was mentioned earlier in the analysis, CANTERRA SEEDS is being as proactive as possible by reducing expenses in areas where possible. The current market conditions in the seed industry have reduced overall profitability and this is anticipated to continue for the next 12 to 24 months at least. As always, the focus will be to ensure that all expenses are focused to ensure a successful return on investment.

As this report is written orders for canola, corn and soybeans are all improved from those recorded in 2019. It is certainly anticipated that the fiscal year of 2019/20 will be significantly improved from the results recorded in 2018/19 and these are expected to continue to improve due to the focus on these critical success factors into the future.

## 9. ADVANCES TO RELATED AFFILIATES

There is currently an advance of \$41,703 that is owed by Limagrain Cereals Research Canada as at December 31, 2019. This amount was repaid in January of 2020.

# Management's Discussion and Analysis Report

REPORT FOR THE THREE MONTHS ENDED DECEMBER 31, 2019

## 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 fulfills 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 20, 2020

### 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, 2019 AND 2018

*These financial statements  
are unaudited and were not  
reviewed by an auditor*

## Consolidated Statements of Financial Position

	<i>December 31, 2019</i> <i>Unaudited</i>	<i>December 31, 2018</i> <i>Unaudited</i>	<i>September 30, 2019</i> <i>Audited</i>
	\$	\$	\$
<b>Assets</b>			
<b>Current</b>			
Cash	3,855,929	5,658,957	2,692,541
Accounts receivable	1,792,822	2,038,766	2,954,837
Income taxes receivable	595,836	450,728	77,893
Inventory <i>(Note 5)</i>	10,933,650	8,277,846	8,331,608
Prepaid expenses and deposits	7,883,118	7,179,998	1,331,593
	25,061,355	23,606,295	15,388,472
Property and equipment	660,173	484,223	609,591
Intangible assets	593,825	650,453	621,003
Deferred tax asset	863,072	416,045	863,271
Investment in joint venture <i>(Note 9)</i>	1,376,775	2,508,447	1,771,647
Advances to related company <i>(Note 6)</i>	41,703	56,745	319,495
	28,596,903	27,722,208	19,573,479
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accruals	1,735,705	1,890,238	6,253,100
Deferred revenue <i>(Note 7)</i>	15,090,875	12,806,894	-
Income Taxes Payable	-	-	-
	16,826,580	14,697,132	6,253,100
<b>Shareholders' Equity</b>			
Share capital <i>(Note 8)</i>	12,577,828	12,577,828	12,577,828
Deficit	(826,228)	428,525	723,828
Contributed surplus	18,723	18,723	18,723
	11,770,323	13,025,076	13,320,379
<b>Total Liabilities and Equity</b>	28,596,903	27,722,208	19,573,479

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, 2019 AND 2018

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## Consolidated Statements of Comprehensive Income

	Three months ended	
	2019 <i>Unaudited</i>	2018 <i>Unaudited</i>
	\$	\$
Sales	29,277	164,115
Cost of sales	17,958	139,550
Gross profit	11,319	24,565
Other revenue <i>(Note 4)</i>	76,789	117,530
	88,108	142,095
Operating, general and administrative	911,121	960,221
Loss from joint venture	341,527	386,870
Depreciation	62,279	62,114
Salaries, wages and benefits	771,159	880,719
Interest	-	-
	2,086,086	2,289,924
Loss from operations before taxes	(1,997,978)	(2,147,829)
Income tax recovery	447,922	488,878
Loss and comprehensive loss	(1,550,056)	(1,658,951)
Loss per share		
Basic and fully diluted <i>(Note 10)</i>	(0.21)	(0.22)

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# Interim Consolidated Financial Statements

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2019 AND 2018

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## Consolidated Statements of Cash Flows

	2019 <i>Unaudited</i>	2018 <i>Unaudited</i>
	\$	\$
Cash provided by (used for) the following activities		
Operating activities		
Net loss	(1,550,056)	(1,658,951)
Depreciation of plant and equipment	34,352	35,919
Depreciation of intangible assets	27,927	26,195
Loss from joint venture	341,527	386,870
Income tax recovery accrual	(447,922)	(488,877)
	(1,594,172)	(1,698,844)
Changes in working capital accounts		
Accounts receivable	1,162,016	2,192,442
Inventory	(2,602,041)	(716,973)
Prepaid expenses and deposits	(6,473,632)	(4,897,171)
Accounts payable and accruals	(4,517,395)	(10,457,852)
Deferred revenue	15,090,875	12,798,894
Income tax payable	(147,716)	2,655
	917,935	(2,776,849)
Financing activities		
Repayments to related company	277,792	820,667
Contributions to (repayments from) long-term equity investments	53,344	(5,703)
	331,136	814,964
Investing activities		
Purchases of property and equipment	(84,933)	(6,297)
Acquisition of shares in joint venture	(750)	(50,000)
	(85,683)	(56,297)
Increase (decrease) in cash resources	1,163,388	(2,018,182)
Cash and investments, beginning of period	2,692,541	7,677,139
Cash and investments, end of period	3,855,929	5,658,957

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

# Interim Consolidated Financial Statements

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2019 AND 2018

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## Consolidated Statements of Changes in Equity

Unaudited

	Share capital	Contributed surplus	Surplus (deficit)	Total
	\$	\$	\$	\$
Balance, September 30, 2018	12,577,828	18,723	2,087,476	14,684,027
Comprehensive income	-	-	(1,658,951)	(1,658,951)
Balance, December 31, 2018	12,577,828	18,723	428,525	13,025,076
Balance, September 30, 2019	12,577,828	18,723	723,828	13,320,379
Comprehensive income	-	-	(1,550,056)	(1,550,056)
Balance, December 31, 2019	12,577,828	18,723	(826,228)	11,770,323

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

# Interim Consolidated Financial Statements

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2019 AND 2018

*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 Blvd., 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 seed sales generally 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, corn and soybeans sales cycles.

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 US company), and its joint venture investment Meridian Seeds LLC (a US 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, 2019 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, 2019.

These interim condensed consolidated financial statements for the three-month period ended December 31, 2019 and 2018 were recommended for approval by the Audit Committee and were approved and authorized for issue by the Board of Directors on February 20, 2020.

## 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.

# Interim Consolidated Financial Statements

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2019 AND 2018

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## 4. Other Revenue

	Three months ended	
	December 31, 2019	December 31, 2018
	\$	\$
Interest and investment income	15,374	21,837
Other	43,352	77,630
Scientific research and experimental development tax refundable	18,063	18,063
	76,789	117,530

## 5. Inventory

	December 31, 2019	December 31, 2018	September 30, 2019
	\$	\$	\$
Finished goods	2,807,627	3,258,235	2,672,688
Raw materials	8,126,023	5,019,611	5,658,920
	10,933,650	8,277,846	8,331,608

The cost of inventories recognized as an expense and included in cost of sales in 2019 amounted to \$Nil (2018 – \$Nil).

## 6. Advances to Related Company

	December 31, 2019	December 31, 2018	September 30, 2019
	\$	\$	\$
Meridian Seeds LLC	–	56,745	319,495
Limagrain Cereals Research Canada	41,703	–	–
	41,703	56,745	319,495

Advances to related company are unsecured, non-interest bearing and have no fixed terms of repayment. Meridian Seeds, LLC, a US 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, 2019 or December 31, 2018.

# Interim Consolidated Financial Statements

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2019 AND 2018

*These financial statements  
are unaudited and were not  
reviewed by an auditor*

## 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, 2019	December 31, 2018	September 30, 2019
Issued	\$	\$	\$
Common shares			
7,551,147 Class A common shares (2018 – 7,551,147)	12,109,827	12,109,827	12,109,827
2,118,000 Class B series 1 shares (2018 – 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, 2019 and December 31, 2018. However, there were share transactions with shares already released from treasury. 119,239 Class A shares and 132,000 Class B shares were transferred during the three-month period ended December 31, 2019. For the same three-month period ending December 31, 2018 there were 110,631 Class A shares and 138,000 Class B shares transferred.

## 9. Investment 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, 2019 and 2018. The amounts below are in US\$.

	2019	2018
	\$	\$
Current assets	1,217,172	1,732,018
Long-term assets	245,884	240,455
Current liabilities	281,438	218,091
Revenues	16,279	25,214
Expenses	282,926	353,606
Net loss	(266,647)	(328,392)
Cash provided by (used in) operating activities	(56,938)	(296,337)
Cash provided by (used in) investing and financing activities	(252,032)	(625,528)



# Interim Consolidated Financial Statements

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2019 AND 2018

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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 \$.

	2019	2018
	\$	\$
Investment in CANTERRA SEEDS USA LTD.	722,700	992,163

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, 2019 and 2018. The amounts below are in in Canadian \$.

	2019	2018
	\$	\$
Current assets	3,709,192	3,055,098
Long-term assets	1,976,105	1,844,055
Current liabilities	426,432	96,264
Revenues	-	-
Expenses	635,859	564,915
Net loss	(635,859)	(564,915)
Cash provided by (used in) operating activities	(3,760,609)	(585,442)
Cash provided by (used in) investing and financing activities	3,210,280	(124,058)

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

	2019	2018
	\$	\$
Investment in Limagrain Cereals Research Canada	654,075	1,516,284

## 10. Earnings per share

The basic income per share has been calculated based upon the weighted average number of shares outstanding during the three-month period ended December 31, 2019 of 7,551,147 (2018 – 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	\$ 341,330
Later than one year not later than five years	172,155

### 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, 2019 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, 2019 totaled to \$Nil (2018 - \$Nil).



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