




FARMERS DESERVE **THE BEST**

QUARTERLY REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2018



The background of the page is a photograph of lush green leaves in the foreground, slightly out of focus, against a bright blue sky with soft, white clouds. The text is positioned in the upper left quadrant.

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2018

CANTERRA SEEDS HOLDINGS LTD. (the Company) is a recognized leader in the Canadian 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, 2018.

CANTERRA SEEDS reports a net loss for the three months ended December 31, 2018 of \$1,658,951. This compares to the December 31, 2017 results where the Company recorded a net loss of \$1,205,047 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, 2018. 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, 2019.

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 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 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 grower and retail supplier) wants the product on their premises. During the months of October to December in 2018, only a small amount of corn was delivered to customers. There were no deliveries and sales of either canola or soybeans during this time. During the same period in 2017, a small amount of canola and a significant amount of soybean seed was delivered. Although product orders are very similar to the prior year, deliveries are delayed. Due to that reason, sales decreased by \$2.71 million, from \$2.88 million during the three months ended December 31, 2017, to \$0.17 million for the three months ended December 31, 2018.

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 were similar but slightly lower for the three months ended December 31, 2018 than they were for the prior year. 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 additional potential yield is worth seeding any winter wheat on their farms. Instead, 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2018

The reduction in seed sales caused the gross profit to reduce by \$0.44 million. Gross profit has reduced from \$0.46 million for the three months ended December 31, 2017, to \$0.02 million for the three months ended December 31, 2018. The gross profit percentage has reduced slightly from the prior year, from 15.9% for the three months ended December 31, 2017 to 15.0% for the three months ended December 31, 2018.

Other Revenue

The other revenue reduced by \$21 thousand, from \$139 thousand to \$118 thousand. This reduction is mainly due to the reduction in government support due in turn to the transition of the cereal research function to CANTERRA SEEDS investment, Limagrain Cereals Research Canada (LCRC).

Operating, General and Administrative Expenses

These expenses have decreased by \$9 thousand or 0.9%, from \$969 thousand for the three months ended December 31, 2017 to \$960 thousand for the three months ended December 31, 2018. An effort has been made to ensure that these expenses are spent as wisely as possible throughout the fiscal year.

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 is 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 is not significant in the areas where it has winter wheat products to sell to growers. However, Meridian Seeds has grown considerably over the last few years and added three new staff

during the 2018 fiscal period. With this, the operating expenses of the Company have increased significantly. In other words, the Company is growing considerably, which means increases in both revenues and expenses. This means higher losses from this joint venture during the months where sales are low (October through to February) and higher gains from this entity during the quarters where sales occur (March through to September).

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, 2018.

Overall, the loss from the joint ventures increased by \$196 thousand, from \$191 thousand for the three-month period ending December 31, 2017, to \$387 thousand for the same three-month period ending December 31, 2018.

Depreciation and Amortization

Has reduced from \$67 thousand to \$62 thousand, a small change.

Salaries, Wages and Benefits

Has reduced by \$50 thousand from \$931 thousand for the three-month period ended December 31, 2017, to \$881 thousand for the three-month period ended December 31, 2018. The main reason for this decrease is the timing of certain remuneration payments when compared year to year.

Interest

No expense occurred in 2018 as the Company did not access its line of credit. This was used for a small time in the fall of 2017.

4. Summary of Quarterly Financial Information – Restated

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

	2018/19 Q1	2017/18 Q4	2017/18 Q3	2017/18 Q2	2017/18 Q1	2016/17 Q4	2016/17 Q3	2016/17 Q2
Total revenue	164	3,321	4,283	20,796	2,879	863	5,415	23,168
Net income (loss)	(1,659)	(138)	(519)	2,038	(1,205)	(563)	(281)	2,568
Earnings (loss) per share (diluted)	(0.22)	(0.02)	(0.07)	0.27	(0.16)	(0.07)	(0.04)	0.34



MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2018

CANTERRA SEEDS sells agriculture seed of many 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. 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 almost solely of canola, corn and soybean 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 reduced by \$2.02 million for the three months ended December 31, 2018.

Cash from operating activities during the three-month period used \$2.78 million. The major reduction of \$10.46 million is due to the payment for payables accrued and expensed during the 2017/18 fiscal period. In addition, the Company increased its inventory and prepaid expenses (mainly prepaid deposits for canola, corn and soybean inventory) by \$5.61 million in order to have canola, corn and soybeans products available for sale for the 2019 crop year. Also, with the low revenues of the quarter there has been a cash loss from operation during the quarter that totals to \$1.7 million.

These cash outlays are partially offset by positive influences to cash. Firstly, the buildup of deferred revenue, an increase of \$12.8 million since September 30, 2018. This deferred revenue relates to deposits made by CANTERRA SEEDS customers for canola, corn and soybeans that will be delivered prior to the 2019 seeding season over the next six months. In addition, Accounts receivable reduced by \$2.19 million from the end of September 2018 as payments were received during the quarter.

There was \$0.82 million of cash provided by financing activities during the quarter as the Company was repaid for an inter-company loan from an affiliated company.

The cash used for investing activities was \$56 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 7, 2019 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. A number of share transactions were finalized during the quarter ended December 31, 2018 but none of these transactions occurred from treasury.

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, with foreign exchange forward contracts to fix the exchange rates on future net foreign currency cash outflows along with fixed Canadian dollar priced contracts for bare canola seed. The Company does not hold or issue derivative contracts for speculative purposes. As at December 31, 2018 CANTERRA SEEDS has no outstanding foreign currency forward contracts in place.

8. Outlook

The best way to analyze the seed sales at CANTERRA SEEDS is to break them down into their three methods: (1) canola sales where CANTERRA SEEDS acts as the manufacturer and processor and sells the product in a Company branded bag, (2) the corn and soybean sales where CANTERRA SEEDS sells PRIDE Seeds brand products to western Canadian retailers and (3) pedigreed sales where the products are owned and distributed by CANTERRA SEEDS licensees and the Company takes a portion of the sale for the grower's right to produce and sell the varieties.



MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2018

With canola sales, as mentioned earlier in the report, CANTERRA SEEDS has made no deliveries of canola prior to December 31, 2018. However, the Company has orders that are similar at this point to the orders made at the same time last year. Also, as is often the case at this time of year, there appears to be significant acres in Western Canada where the decision of what crop type to plant has not been made. Overall, the Company expects to meet or exceed its canola sales from 2017/18 due to its continued focus on the critical success factors for the product as follows:

- The Company will 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. CANTERRA SEEDS is currently selling varieties that match up to any in the market, whether that be clubroot, straight-cut, Clearfield® or other features.
- Secondly, for canola, 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 quality of the bagged canola not only meets the standards set by the Canada Seeds Act, but also consistently exceeds the competition in the market. These quality products are available for sale this spring.
- Thirdly, with canola, there is always the risk of inventory obsolescence. This could be due to a loss of germination, or it could be 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 retailer. To that end, CANTERRA SEEDS distributes its product through Univar, Winfield United and UFA along with its list of grower/retail shareholders. CANTERRA SEEDS canola can be purchased anywhere in Western Canada.

With the corn and soybean business, the PRIDE Seeds brand 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.

CANTERRA SEEDS is forecasting to increase its sales of corn while staying relatively unchanged in its sales of soybeans, even though the overall market is expected to reduce. In the future, it is anticipated 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 strong breeding results and high-quality controls to ensure that only the top varieties are distributed in Western Canada.
- CANTERRA SEEDS brings its extensive seed distribution network into this relationship, which ensures that these products are available to growers throughout the Prairie provinces.

For the pedigreed seed business, CANTERRA SEEDS is forecasting to increase its sales from 2017/18 to 2018/19. 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 as follows. Firstly, CANTERRA SEEDS has been very successful at acquiring some of the top varieties that were available from public breeding entities like Agriculture and Agri-Food Canada, the Crop Development Centre and the University of Alberta. 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 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 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.

As well, the Company will continue to ensure that operating expenses are very carefully monitored at all times.



MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

FOR THE THREE MONTHS ENDED DECEMBER 31, 2018

9. Advances to Related Affiliates

Advances to affiliates are unsecured, non-interest bearing and have no fixed terms of repayment. The current advance is made to Meridian Seeds, LLC. The advance occurred due to the fact that CANTERRA SEEDS is the administrative arm for Meridian Seeds LLC and there are charges that are borne by CANTERRA SEEDS and then charged through to Meridian Seeds, LLC. This amount was repaid in the first two months of the 2019 calendar year.

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 7, 2019.

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.



The background of the page is a photograph of a lush green field of oat plants. The plants are in the foreground, slightly out of focus, with their long, thin leaves and developing seed heads visible. The sky above is a clear, bright blue, dotted with large, soft white clouds. The overall lighting is bright and natural, suggesting a sunny day.

CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

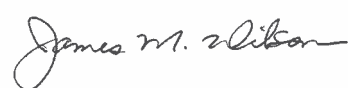
FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2018 AND 2017

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

Consolidated Statements of Financial Position

	December 31, 2018 <i>Unaudited</i>	December 31, 2017 <i>Unaudited</i>	September 30, 2018 <i>Audited</i>
	\$	\$	\$
Assets			
Current			
Cash	5,658,957	9,873,520	7,677,139
Accounts receivable	2,038,766	1,621,127	4,231,208
Income taxes receivable	450,728	367,989	–
Inventory (note 5)	8,277,846	9,164,864	7,560,873
Prepaid expenses and deposits	7,179,998	6,133,015	2,282,827
	23,606,295	27,160,515	21,752,047
Property and equipment	484,223	607,166	513,845
Intangible assets	650,453	655,055	626,649
Deferred tax asset	416,045	419,015	416,636
Investment in joint venture (note 9)	2,508,447	2,956,459	2,889,614
Advances to related company (note 6)	56,745	3,160	877,412
	27,722,208	31,801,370	27,076,203
Liabilities			
Current			
Accounts payable and accruals	1,890,238	4,146,105	13,348,090
Deferred revenue (note 7)	12,806,894	14,352,276	8,000
Income taxes payable	–	–	36,086
	14,697,132	18,498,381	12,392,176
Shareholders' Equity			
Share capital (note 8)	12,577,828	12,577,828	12,577,828
Deficit	428,525	706,438	2,087,476
Contributed surplus	18,723	18,723	18,723
	13,025,076	13,302,989	14,684,027
Total Liabilities and Equity	27,722,208	31,801,370	27,076,203

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, 2018 AND 2017

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

Consolidated Statements of Comprehensive Income

Three months ended

	2018 <i>Unaudited</i>	2017 <i>Unaudited</i>
	\$	\$
Sales	164,115	2,878,800
Cost of sales	139,550	2,420,223
Gross profit	24,565	458,577
Other revenue (note 4)	117,530	138,765
	142,095	597,342
Operating, general and administrative	960,221	969,067
Loss from joint venture	386,870	191,282
Depreciation	62,114	67,356
Salaries, wages and benefits	880,719	930,548
Interest	–	1,002
	2,289,924	2,159,255
Loss from operations before taxes	(2,147,829)	(1,561,913)
Income tax recovery	488,878	356,866
Loss and comprehensive loss	(1,658,951)	(1,205,047)
Loss per share		
Basic and fully diluted (note 10)	(0.22)	(0.18)

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



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2018 AND 2017

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

Consolidated Statements of Cash Flows

	2018 <i>Unaudited</i>	2017 <i>Unaudited</i>
	\$	\$
Cash provided by (used for) the following activities:		
Operating activities		
Net loss	(1,658,951)	(1,205,047)
Depreciation of plant and equipment	35,919	39,412
Depreciation of intangible assets	26,195	27,944
Loss from joint venture	386,870	191,282
Income tax recovery accrual	(488,878)	(356,866)
	(1,698,845)	(1,303,275)
Changes in working capital accounts		
Accounts receivable	2,192,442	1,279,149
Inventory	(716,973)	(4,007,108)
Prepaid expenses and deposits	(4,897,171)	(2,386,306)
Accounts payable and accruals	(10,457,852)	(4,874,315)
Deferred revenue	12,798,894	14,352,276
Income tax payable	2,656	–
	(2,776,849)	3,060,421
Financing activities		
Repayments to related company	820,667	228,808
Contributions to long-term equity investments	(5,703)	(30,511)
	814,964	198,297
Investing activities		
Purchases of property and equipment	(6,297)	(15,022)
Purchases of intangible assets	(50,000)	(45,000)
	(56,297)	(60,022)
Increase in cash resources	(2,018,182)	3,198,696
Cash and investments, beginning of period	7,677,139	6,674,824
Cash and investments, end of period	5,658,957	9,873,520

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



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2018 AND 2017

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

Consolidated Statements of Changes in Equity

Unaudited

	Share capital	Contributed surplus	Surplus (deficit)	Total
	\$	\$	\$	\$
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
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

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



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2018 AND 2017

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 U.S. company), and its joint venture investments Meridian Seeds LLC (a U.S. company) and Limagrain Cereals Research Canada (a Canadian partnership), which are 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, 2018 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, 2018.

These interim condensed consolidated financial statements for the three-month period ended December 31, 2018 and 2017 were recommended for approval by the Audit Committee and were approved and authorized for issue by the Board of Directors on February 7, 2019.

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.



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2018 AND 2017

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

4. Other Revenue

Three Months Ended

	December 31, 2018	December 31, 2017
	\$	\$
Interest and investment income	21,837	15,057
Other	77,630	75,750
Scientific research and experimental development tax refundable	18,063	47,958
	117,530	138,765

5. Inventory

	December 31, 2018	December 31, 2017	September 30, 2018
	\$	\$	\$
Finished goods	3,258,235	4,299,560	3,886,553
Raw materials	5,019,611	4,865,304	3,674,320
	8,277,846	9,164,864	7,560,873

The cost of inventories recognized as an expense and included in cost of sales in 2018 amounted to \$Nil (2017 – \$605,582).

6. Advances to Related Company

	December 31, 2018	December 31, 2017	September 30, 2018
	\$	\$	\$
Meridian Seeds LLC	56,745	362	877,412
Limagrain Cereals Research Canada	–	2,798	–
	56,745	3,160	877,412

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, 2018 or December 31, 2017.



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2018 AND 2017

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, 2018	December 31, 2017	September 30, 2018
	\$	\$	\$
Issued			
Common shares			
7,551,147 Class A common shares (2017 – 7,551,147)	12,109,827	12,109,827	12,109,827
2,118,000 Class B series 1 shares (2017 – 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, 2018 and June 30, 2017. However, there were share transactions with shares already released from treasury. 110,631 Class A shares and 138,000 Class B shares were transferred during the three-month period ended December 31, 2018. No such activity took place during the same three-month period ending December 31, 2017.

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, 2018 and 2017. The amounts below are in US\$.

	2018	2017
	\$	\$
Current assets	1,732,018	1,568,796
Long-term assets	240,455	172,347
Current liabilities	218,091	542,337
Revenues	25,214	107,534
Expenses	353,606	340,539
Net loss	(328,392)	(233,005)
Cash provided by (used in) operating activities	(296,337)	251,301
Cash provided by (used in) investing and financing activities	(625,528)	(13,510)



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FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2018 AND 2017

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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 \$.

	2018	2017
	\$	\$
Investment in CANTERRA SEEDS USA LTD.	992,163	715,778

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, 2018 and 2017. The amounts below are in Canadian \$.

	2018	2017
	\$	\$
Current assets	3,055,098	5,742,608
Long-term assets	1,844,055	1,570,812
Current liabilities	96,264	95,871
Revenues	–	–
Expenses	564,915	422,982
Net loss	(564,915)	(422,982)
Cash provided by (used in) operating activities	(585,442)	(556,748)
Cash provided by (used in) investing and financing activities	(124,058)	(76,586)

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

	2018	2017
	\$	\$
Investment in Limagrain Cereals Research Canada	1,516,284	2,240,681

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, 2018 of 7,551,147 (2017 – 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	\$374,399
Later than one year not later than five years	\$384,434

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, 2018 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, 2018 totaled to \$Nil (2017 – \$1,002).





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