

*Unaudited Interim Condensed Consolidated Financial Statements of*



*For the three-month periods ended September 30, 2017 and 2016*

*(Expressed in US Dollars)*

# CERES GLOBAL AG CORP

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**CERES GLOBAL AG CORP.**

Interim Condensed Consolidated Balance Sheets

*Unaudited*

<i>(In thousands of USD)</i>	<b>September 30,</b>	<b>June 30,</b>
	<b>2017</b>	<b>2017</b>
<b>Assets</b>		
Current assets:		
Cash	\$ 1,691	\$ 585
Due from brokers (Note 5)	5,914	1,828
Unrealized gains on open cash contracts (Note 6)	9,056	10,502
Accounts receivable, trade	27,110	22,695
Inventories, grains	74,997	95,275
Prepaid expenses and sundry assets	1,572	1,924
Assets held for sale (Note 7)	—	—
Portfolio investments (Note 6)	2,839	3,193
Total current assets	123,179	136,002
Investments in associates	2,728	2,706
Intangible assets	300	300
Property, plant and equipment (Note 7)	119,533	117,274
Total assets	\$ 245,740	\$ 256,282
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness (Note 8)	\$ 45,352	\$ 56,443
Current portion of long-term debt (Note 9)	3,000	3,000
Accounts payable and accrued liabilities	31,965	22,560
Unrealized losses on open cash contracts (Note 6)	2,825	14,066
Total current liabilities	83,142	96,069
Long-term debt (Note 9)	11,504	11,454
Total liabilities	94,646	107,523
Shareholders' equity:		
Common shares (Note 12)	203,269	203,263
Deferred share units (Note 13)	752	771
Contributed surplus (Note 14)	9,680	9,632
Accumulated other comprehensive income	(18,279)	(21,385)
Deficit	(44,328)	(43,522)
Total shareholders' equity	151,094	148,759
Contingent liabilities (Note 16)		
Total liabilities and shareholders' equity	\$ 245,740	\$ 256,282

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

**CERES GLOBAL AG CORP.**

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

Three months ended September 30, 2017 and 2016

*Unaudited*

*(In thousands of USD except shares and loss per share)*

	<b>2017</b>	<b>2016</b>
Revenues	\$ 130,638	\$ 155,927
Cost of sales	(127,575)	(154,056)
Gross profit	3,063	1,871
General and administrative expenses	(2,544)	(2,476)
Income (loss) from operations	519	(605)
Finance income (loss) (Note 10)	(246)	170
Interest expense (Note 11)	(930)	(954)
Revaluation of derivative warrant liability	—	103
Gain (loss) on disposal of property, plant and equipment (Note 7 )	(63)	—
Loss before income taxes and undernoted item	(720)	(1,286)
Income tax (expense) recovery	(2)	(3)
Share of net loss in investment in associate	(84)	(67)
Net loss	(806)	(1,356)
Components of comprehensive income (loss):		
Gain (loss) on translation of foreign currency accounts of foreign operations	3,106	(1,245)
Total comprehensive income (loss)	\$ 2,300	\$ (2,601)
Weighted-average number of shares for the period	27,910,413	26,888,742
Loss per share:		
Basic	\$ (0.03)	\$ (0.05)
Diluted	(0.03)	(0.05)
Supplemental disclosure of selected information:		
Depreciation included in Cost of sales	\$ (1,228)	\$ (1,158)
Depreciation included in General and administrative expenses	(22)	(21)
Amortization of financing costs included in Interest expense	(127)	(172)
Personnel costs included in Cost of sales	(1,553)	(1,503)
Personnel costs included in General and administrative expenses	(280)	(165)

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

**CERES GLOBAL AG CORP.**

Interim Condensed Consolidated Statements of Cash Flows

Three months ended September 30, 2017 and 2016

*Unaudited*

(In thousands of USD)

	<u>2017</u>	<u>2016</u>
Operating activities:		
Net loss	\$ (806)	\$ (1,356)
Adjustments for:		
Depreciation of property, plant and equipment	1,250	1,179
Interest expense	930	954
Revaluation of portfolio investments	486	—
Loss on property, plant and equipment	63	—
Income tax expense (net)	—	(9)
Share-based compensation	29	75
Share of net loss in investments in associates	84	67
Revaluation for future payments to Front Street Capital	(10)	(35)
Revaluation of derivative warrant liability	—	(103)
Changes in non-cash working capital accounts:		
Due from broker	(4,086)	685
Unrealized gains on open cash contracts	(9,834)	1,498
Accounts receivable, trade	(4,348)	(3,349)
Inventories, grains	20,743	(7,395)
Prepaid expenses and sundry assets	337	(44)
Accounts payable and accrued liabilities	9,620	13,647
Interest paid	(841)	(800)
Net cash provided by operating activities	<u>13,617</u>	<u>5,014</u>
Investing activities:		
Disposition of assets held for sale	(63)	—
Acquisition of property, plant and equipment	(1,279)	(3,820)
Net cash used in investing activities	<u>(1,342)</u>	<u>(3,820)</u>
Financing activities:		
Net proceeds (repayment) of bank indebtedness	(13,573)	(1,000)
Repurchase of common shares under normal course issuer bid	—	(9)
Net cash used in financing activities	<u>(13,573)</u>	<u>(1,009)</u>
Foreign exchange cash flow adjustment on accounts denominated in a foreign currency	<u>(2)</u>	<u>(237)</u>
Decrease in cash and cash equivalents	(1,300)	(52)
Cash and cash equivalents, beginning of period	<u>585</u>	<u>(110)</u>
Cash and cash equivalents, end of period	\$ <u><u>(715)</u></u>	\$ <u><u>(162)</u></u>
Cash	1,691	376
Cheques issued in excess of cash on hand	(2,406)	(538)
Cash and cash equivalents, end of period	\$ <u><u>(715)</u></u>	\$ <u><u>(162)</u></u>

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

**CERES GLOBAL AG CORP.**

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Three months ended September 30, 2017 and 2016

*Unaudited*

<i>(In thousands of USD)</i>	<u>Common shares</u>	<u>Deferred share units</u>	<u>Contributed surplus</u>	<u>Accumulated other comprehensive income</u>	<u>Deficit</u>	<u>Total shareholders' equity</u>
Balances, June 30, 2017	\$ 203,263	\$ 771	\$ 9,632	\$ (21,385)	\$ (43,522)	\$ 148,759
Issuance of Deferred Share Units	—	78	—	—	—	78
Fair value adjustment of Deferred Share Units	—	(97)	—	—	—	(97)
Share incentive compensation	6	—	48	—	—	54
Net loss	—	—	—	—	(806)	(806)
Other comprehensive income	—	—	—	3,106	—	3,106
Foreign currency translation adjustments	—	—	—	—	—	—
Balances, September 30, 2017	<u>\$ 203,269</u>	<u>\$ 752</u>	<u>\$ 9,680</u>	<u>\$ (18,279)</u>	<u>\$ (44,328)</u>	<u>\$ 151,094</u>
Balances, June 30, 2016	\$ 199,606	\$ 617	\$ 9,432	\$ (21,361)	\$ (30,696)	\$ 157,598
Issuance of Deferred Share Units	—	75	—	—	—	75
Fair value adjustment of Deferred Share Units	—	(20)	—	—	—	(20)
Repurchases under normal course issuer bid	(14)	—	—	—	5	(9)
Share incentive compensation	—	—	20	—	—	20
Net loss	—	—	—	—	(1,356)	(1,356)
Other comprehensive income	—	—	—	(1,245)	—	(1,245)
Foreign currency translation adjustments	—	—	—	—	—	—
Balances, September 30, 2016	<u>\$ 199,592</u>	<u>\$ 672</u>	<u>\$ 9,452</u>	<u>\$ (22,606)</u>	<u>\$ (32,047)</u>	<u>\$ 155,063</u>

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

## **CERES GLOBAL AG CORP.**

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

### **(1) CORPORATE STATUS, REPORTING AND NATURE OF OPERATIONS**

Ceres Global Ag Corp. (hereinafter referred to as “Ceres” or the “Corporation”) was incorporated on November 1, 2007, as amended on December 6, 2007, under the provisions of the *Business Corporations Act* (Ontario). On April 1, 2013, Ceres Global Ag Corp. amalgamated with Corus Land Holding Corp. In addition, on April 1, 2014, Ceres Global Ag Corp. amalgamated with Riverland Agriculture Ltd. and Ceres Canada Holding Corp. Thereafter, the amalgamated corporations continued operating as Ceres Global Ag Corp. Ceres is a corporation domiciled in Canada, with its head office located in St. Louis Park, Minnesota, United States.

These interim condensed consolidated financial statements of Ceres as at and for the three-month periods ended September 30, 2017 and 2016 include the accounts of Ceres and its wholly owned subsidiaries Ceres U.S. Holding Corp. and Riverland Ag Corp. (“Riverland Ag”). All intercompany transactions and balances have been eliminated. In combination with Riverland Ag, the Corporation is an agricultural cereal grain storage, customer-specific procurement and supply ingredient company that operates six grain storage, handling and merchandising facilities in the state of Minnesota and the provinces of Ontario and Saskatchewan, with a combined licensed capacity of 34.4 million bushels.

The Corporation has one reportable segment while having two operating segments: (1) grain trading, handling and storage; and (2) logistics, which includes transloading non-grain commodities on behalf of third-party customers. With the exception of \$718 thousand of revenue recognized for the quarter ended September 30, 2017 and \$224 thousand for the quarter ended September 30, 2016, all of the Corporation’s revenues are comprised of grain trading, handling and storage.

### **(2) BASIS OF PREPARATION**

#### **Statement of compliance**

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and with International Accounting Standards (“IAS”) 34 – Interim Financial Reporting (“IAS 34”). Certain information and disclosures normally required to be included in notes to annual consolidated financial statements have been condensed or omitted. Accounting, estimation and valuation policies have been consistently applied to all periods presented herein, in accordance with IFRS.

These interim condensed consolidated financial statements were authorized for issue by the board of the directors of the Corporation (the “Board of Directors”) on November 14, 2017.

#### **Functional and presentation currency**

These interim condensed consolidated financial statements are presented in United States Dollars (“USD”), which is different from the Corporation’s functional currency of Canadian Dollars (“CAD”).

#### **Basis of measurement**

These interim condensed consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value;

## **CERES GLOBAL AG CORP.**

### Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

- Assets held for sale are measured at fair value less costs to sell;
- Financial instruments at fair value through profit or loss are measured at fair value; and
- Inventories of agricultural commodities are measured at fair value less costs to sell.

#### **(3) CORPORATE STATUS, REPORTING AND NATURE OF OPERATIONS**

These interim condensed consolidated financial statements should be read in conjunction with Ceres' audited consolidated financial statements for the year ended June 30, 2017. The Corporation's significant accounting policies were presented in Note 3 of those audited financial statements.

#### **(4) STANDARDS ISSUED BUT NOT EFFECTIVE**

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Corporation's consolidated financial statements are listed below. This listing of standards and interpretations issued includes those that the Corporation reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date.

##### **IFRS 9 – Financial Instruments**

On July 24, 2014, the IASB issued the final version of IFRS 9, which replaces *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The new standard introduces requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and the fair value of an entity's own debt. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Ceres has not yet determined the impact of this standard on the Corporation's consolidated financial statements.

##### **IFRS 15 – Revenue from Contracts with Customers**

On May 28, 2014, the IASB issued IFRS 15, which provides a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more relevant disclosures. IFRS 15 supersedes *IAS 18 – Revenue*, *IAS 11 – Construction Contracts* and a number of revenue-related interpretations and applies to annual reporting periods beginning on or after January 1, 2018, although early adoption is permitted. Ceres has not yet determined the impact of this standard on the Corporation's consolidated financial statements.

##### **IFRS 16 – Leases**

On January 13, 2016, the IASB issued IFRS 16 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The new standard is effective for annual periods beginning on or after January 1, 2019. Ceres has not yet determined the impact of this standard on the Corporation's consolidated financial statements.



**CERES GLOBAL AG CORP.**

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

**(5) DUE FROM BROKERS**

“Due from brokers” represents unrealized gains and losses due from custodian brokers on commodity futures and options contracts in addition to margin deposits in the form of cash that are held by custodian brokers in connection with such contracts. Amounts due from brokers are offset by amounts due to the same brokers, under the terms and conditions of enforceable master netting arrangements in effect with all brokers, through which the Corporation executes its transactions and for which the Corporation intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Amounts due from brokers represent the following:

<i>(in thousands of USD)</i>	<b>September 30, 2017</b>	<b>June 30, 2017</b>
Margin deposits	\$ 3,937	\$ 2,815
Unrealized gains on futures contracts and options, at fair value	1,977	33
	5,914	2,848
Unrealized losses on futures contracts and options, at fair value	—	(1,020)
Due from brokers	\$ 5,914	\$ 1,828

**(6) FINANCIAL INSTRUMENTS**

**Fair value of financial instruments**

The Corporation’s financial assets and liabilities that are measured at fair value in the consolidated balance sheets are categorized by level according to the significance of the inputs used in making the measurements. The Corporation recognizes transfers between fair value measurements hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels in the quarter ended September 30, 2017.

The following table presents information about the financial assets and liabilities measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques used to determine such fair values.

**CERES GLOBAL AG CORP.**

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

<i>(in thousands of USD)</i>	<b>September 30, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Portfolio investments	\$ —	\$ —	\$ 2,839	\$ 2,839
Due from broker, unrealized gains on futures and options (Note 5)	1,977	—	—	1,977
Unrealized gains on open cash contracts (derivatives)	—	9,056	—	9,056
Unrealized losses on open cash contracts (derivatives)	—	(2,825)	—	(2,825)
Provision for future payments to Front Street Capital, included in Accounts Payable	—	(1)	—	(1)
	<u>\$ 1,977</u>	<u>\$ 6,230</u>	<u>\$ 2,839</u>	<u>\$ 11,046</u>

<i>(in thousands of USD)</i>	<b>June 30, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Portfolio investments	\$ —	\$ —	\$ 3,193	\$ 3,193
Due from broker, unrealized gains on futures and options (Note 5)	33	—	—	33
Unrealized gains on open cash contracts (derivatives)	—	10,502	—	10,502
Due from broker, unrealized losses on futures and options (Note 5)	(1,020)	—	—	(1,020)
Unrealized losses on open cash contracts (derivatives)	—	(14,066)	—	(14,066)
Provision for future payments to Front Street Capital, included in Accounts Payable	—	(11)	—	(11)
	<u>\$ (987)</u>	<u>\$ (3,575)</u>	<u>\$ 3,193</u>	<u>\$ (1,369)</u>

Reconciliation of Level 3 fair values:

<i>(in thousands of USD)</i>	<b>Level 3</b>
Balance at June 30, 2017	\$ 3,193
Revaluation of portfolio investments	(486)
Currency translation differences	132
Balance at September 30, 2017	<u>\$ 2,839</u>

## CERES GLOBAL AG CORP.

### Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

#### Management of financial instruments risks

In the normal course of business, the Corporation is exposed to various financial instruments risks, including market risk (consisting of price risk, commodity risk, interest rate risk and currency risk), credit risk, custodian and prime brokerage risks, and liquidity risk. The Corporation's overall risk management program seeks to minimize potentially adverse effects of those risks on the Corporation's financial performance. The Corporation may use derivative financial instruments to mitigate certain risk exposures. The Corporation may invest in non-public and public issuers and assets.

#### Price risk

As at September 30, 2017, the Corporation's market risk pertaining to portfolio investments was potentially affected by changes in actual market prices. As at September 30, 2017, the Corporation's portfolio investments are solely in private companies. Therefore, market factors affecting the value of the portfolio investments are primarily changes in fair value of the investments and the Corporation's ability to liquidate the investments.

Management has determined the effect on the results of operations of the Corporation for the quarter ended September 30, 2017 if the fair value of each of the portfolio investments as at September 30, 2017 had increased or decreased by 10%, using the fair market value of the portfolio investments as at that date and the number of shares then issued and outstanding, and with all other variables remaining constant.

The potential effects on the result of operations for the quarter ending September 30, 2017 would be as follows:

<i>(in thousands of USD except loss per share)</i>	<b>(Increase) decrease in net loss</b>	<b>(Increase) decrease in loss per share</b>
10% increase in fair value of portfolio investments	\$ 284	\$ 0.01
10% decrease in fair value of portfolio investments	\$ (284)	\$ (0.01)

#### Commodity risk

Management has determined the effect on the results of operations of the Corporation for the quarter ended September 30, 2017 if the fair value of each of the open cash contracts as at September 30, 2017 had increased or decreased by 5%, using the open cash contracts as at that date and the number of shares then issued and outstanding, and with all other variables remaining constant.

## CERES GLOBAL AG CORP.

### Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

The potential effects on the result of operations for the quarter ending September 30, 2017 would be as follows:

<i>(in thousands of USD except loss per share)</i>	<b>(Increase) decrease in net loss</b>	<b>(Increase) decrease in loss per share</b>
5% increase in bid/ask prices of commodities	\$ (704)	\$ (0.03)
5% decrease in bid/ask prices of commodities	\$ 704	\$ 0.03

#### Interest rate risk

As at September 30, 2017, Ceres had no long or short portfolio positions in any interest-bearing investment securities.

As at September 30, 2017, except for cash on deposit, the amounts of which vary from time-to-time and on which the Corporation earns interest at nominal variable interest rates, the Corporation had no other variable rate interest-bearing financial assets. As at those dates, a notional increase or decrease in interest rates applicable to cash on deposit would not have materially affected interest revenue and the results of operations. Therefore, as at September 30, 2017, the Corporation's assets are not directly exposed to any significant degree to cash flow interest rate risk due to changes in prevailing market interest rates.

As disclosed in Note 8 (Bank Indebtedness), as at September 30, 2017, the Corporation's Credit Facility (as defined herein) bears interest at an annual rate of 3.875% plus overnight LIBOR. As at September 30, 2017, management has determined the effect on the future results of operations of the Corporation if the variable interest rate component applicable on that date was to increase by 25 basis points ("25 bps"), using the balance of the revolving credit facility payable as at that date and the number of shares then issued and outstanding, and with all other variables remaining constant.

Furthermore, as at September 30, 2017, the Corporation's term loan (Note 9) bears interest at an annual rate of 5.25% plus one month LIBOR. As at September 30, 2017, management has determined the effect on the future results of operations of the Corporation if the variable interest rate component applicable on that date on the term loan was to increase by 25 bps, using the balance of the term loan payable as at that date and the number of shares then issued and outstanding, and with all other variables remaining constant.

## CERES GLOBAL AG CORP.

### Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

On that basis, the potential effects on the result of operations for the quarter ending September 30, 2017 would be as follows:

<i>(in thousands of USD except loss per share)</i>	<u>Increase in net loss</u>	<u>Increase in loss per share</u>
<u>Revolving credit facility</u>		
25 bps increase in annual interest rate	\$ 27	\$ 0.00
<u>Term loan</u>		
25 bps increase in annual interest rate	\$ 9	\$ 0.00

#### Credit risk

Credit risk is the risk a counterparty would be unable to pay for amounts due to the Corporation in accordance with the terms and conditions of the debt instruments. As at September 30, 2017, the Corporation is subject to credit risk concerning cash, amounts due from brokers, trade accounts receivable, and to the extent that open cash contracts for grain commodities have given rise to unrealized gains. The maximum exposure to credit risk on those assets is limited to the carrying value of those assets. The Corporation uses various grain contracts as part of its overall grain merchandising strategies. Performance on these contracts is dependent on delivery of the grain or a customer buy-out. There is counter-party risk associated with non-performance, which may have the potential of creating losses. Management has assessed the counter-party risk and believes that insignificant losses, if any, would result from non-performance.

The Corporation regularly evaluates its credit risk concerning its trade accounts receivable to the extent that such receivables may be concentrated with significant customers. The Corporation minimizes this risk by having a diverse customer base and established credit policies. The aging of the Corporation's trade accounts receivable is substantially current. Based on its review and assessment of its trade accounts receivable, management has determined that, as at September 30, 2017 no allowance for doubtful accounts is warranted.

The Corporation had two customers that each individually represented more than 10% of total revenue for the quarter ended September 30, 2017, comprising 14% and 11% of total revenue. For the quarter ended June 30, 2016, the Corporation had two customers that individually represented more than 10% of total revenue, comprising 12% and 11% of total revenue.

#### Custody and prime brokerage risk

There are risks involved with dealing with a custodian or broker who settle trades. In certain circumstances, the securities or other assets deposited with the custodian or broker may be exposed to credit risk with respect to those parties. In addition, there may be practical or timing problems associated with enforcing the Corporation's rights to its assets in the case of the insolvency of any such party. Notwithstanding the foregoing, management has evaluated the risk of loss related to the custodian or brokers and has determined this risk to be insignificant.

**CERES GLOBAL AG CORP.**

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

Liquidity risk

As at September 30, 2017 and June 30, 2017, the following are the contractual maturities of financial liabilities, excluding interest payments:

September 30, 2017

<i>(in thousands of USD)</i>	Carrying Amount	Contractual Cash Flows	1 Year	2 years	3 to 5 years	More than 5 years
Bank indebtedness	\$ 45,352	\$ 45,428	\$ 45,428	\$ —	\$ —	\$ —
Accounts payable and accrued liabilities	31,965	31,965	31,965	—	—	—
Unrealized losses on open cash contracts	2,825	2,825	2,825	—	—	—
Long-term debt	14,504	15,000	3,000	5,000	7,000	—

June 30, 2017

<i>(in thousands of USD)</i>	Carrying Amount	Contractual Cash Flows	1 Year	2 years	3 to 5 years	More than 5 years
Bank indebtedness	\$ 56,443	\$ 56,595	\$ 56,595	\$ —	\$ —	\$ —
Accounts payable and accrued liabilities	22,560	22,560	22,560	—	—	—
Unrealized losses on open cash contracts	14,066	14,066	14,066	—	—	—
Long-term debt	14,454	15,000	3,000	5,000	7,000	—

Future expected operational cash flows and sufficient assets are available to fund the settlement of these obligations in the normal course of business. In addition, the following factors allow for the substantial mitigation of liquidity risk: the prompt settlement of amounts due from brokers, the active management of trade accounts receivable and the lack of concentration risk related thereto. The Corporation's cash flow management activities and the continued likelihood of its operations further minimize liquidity risk.

Currency risk

In the normal course of business, Ceres may hold assets or have liabilities denominated in currencies other than USD. Therefore, Ceres is exposed to currency risk, as the value of any monetary assets or liabilities denominated in currencies other than USD will vary due to changes in foreign exchange rates.

**CERES GLOBAL AG CORP.**

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

As at September 30, 2017, the following is a summary, at fair value, of Ceres' exposure to currency risks on monetary assets and liabilities:

<i>(in thousands of CAD)</i>	<b>Net asset (liability) exposure</b>
Canadian dollars	\$ 3,161

The following is a summary of the effect on Ceres' profit or loss for the quarter ended September 30, 2017 if the USD had become 5% stronger or weaker against the CAD as at September 30, 2017, with all other variables remaining constant, related to monetary assets and liabilities denominated in CAD:

<i>(in thousands of USD except loss per share)</i>	<b>Increase (decrease) in net loss</b>	<b>Increase (decrease) in loss per share</b>
CAD 5% Stronger	\$ 120	\$ 0.00
CAD 5% Weaker	\$ (134)	\$ 0.00

Currency risk for Ceres relates to transactions denominated in a currency other than USD and the translation of its accounts from the functional currency CAD to the presentation currency USD for the purposes of the consolidated financial reporting of Ceres. Adjustments related to the translation of accounts from the functional currency to the presentation currency are included as other comprehensive income (loss) and have no effect on the determination of net income for the reporting period.

**CERES GLOBAL AG CORP.**

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

**(7) PROPERTY, PLANT AND EQUIPMENT**

Property, plant, and equipment comprised the following at September 30, 2017 and June 30, 2017:

<i>(in thousands of USD)</i>	<u>Land</u>	<u>Buildings Silos &amp; Elevators</u>	<u>Machinery &amp; equipment</u>	<u>Office equipment &amp; other assets</u>	<u>Construction in progress</u>	<u>Totals</u>
<b>Cost</b>						
June 30, 2017	\$ 21,936	\$ 82,179	\$ 24,424	\$ 3,633	\$ 357	\$ 132,529
Additions	—	—	—	—	639	639
Placed in service	—	268	278	—	(546)	—
Currency translation	677	1,402	858	81	1	3,019
September 30, 2017	<u>22,613</u>	<u>83,849</u>	<u>25,560</u>	<u>3,714</u>	<u>451</u>	<u>136,187</u>
<b>Accumulated depreciation</b>						
June 30, 2017	—	(11,009)	(2,729)	(1,517)	—	(15,255)
Depreciation	—	(754)	(415)	(81)	—	(1,250)
Currency translation	—	(64)	(72)	(13)	—	(149)
September 30, 2017	<u>—</u>	<u>(11,827)</u>	<u>(3,216)</u>	<u>(1,611)</u>	<u>—</u>	<u>(16,654)</u>
<b>Carrying amount</b>						
September 30, 2017	<u>\$ 22,613</u>	<u>\$ 72,022</u>	<u>\$ 22,344</u>	<u>\$ 2,103</u>	<u>\$ 451</u>	<u>\$ 119,533</u>
June 30, 2017	<u>\$ 21,936</u>	<u>\$ 71,170</u>	<u>\$ 21,695</u>	<u>\$ 2,116</u>	<u>\$ 357</u>	<u>\$ 117,274</u>

Costs related to property, plant and equipment accrued but not yet paid totaled \$3.3 million as at September 30, 2017 and \$3.9 million as at June 30, 2017.

During the quarter ended September 30, 2017, Ceres closed on the sale of the Buffalo and Duluth Lakeport storage facilities. The Corporation realized a gain on the sale of its Buffalo storage facility of \$103 thousand and a loss of \$166 thousand on the sale of Duluth Lakeport, which are within profit and loss for the quarter ended September 30, 2017. As at June 30, 2017, both facilities were classified as “Assets Held for Sale” on the Consolidated Balance Sheet, valued at nil, being the lesser of their carrying amount and fair value less costs to sell.

**(8) BANK INDEBTEDNESS**

On December 30, 2016, the Corporation amended its uncommitted credit facility (the “Credit Facility”), which now expires on December 29, 2017. The maximum borrowings under the revolving facility are \$67.5 million. Borrowings bear an interest rate of overnight LIBOR plus 3.875% per annum, and interest is calculated and paid on a monthly basis. The Credit Facility is subject to borrowing base limitations. Amounts under the Credit Facility that remain undrawn are not subject to a commitment fee. The Credit Facility has certain covenants pertaining to the accounts of the Corporation and as at September 30, 2017, the Corporation was in compliance with all covenants.



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September 30, 2017 and 2016

As at September 30, 2017 and June 30, 2017, the Corporation had \$16.2 million and \$10.7 million in availability, respectively, on its revolving line of credit.

As at September 30, 2017 and June 30, 2017, the carrying amount of bank indebtedness is summarized as follows:

<i>(in thousands of USD)</i>	<b>September 30, 2017</b>	<b>June 30, 2017</b>
Revolving line of credit	\$ 43,022	\$ 56,595
Unamortized financing costs	(76)	(152)
Cheques issued in excess of cash on hand	2,406	—
Bank indebtedness	\$ 45,352	\$ 56,443

**(9) TERM LOAN**

On December 29, 2016, the Corporation paid down the principal on its term loan facility agreement by the amount of \$1.6 million in accordance with the principal payment schedule included in the agreement. Additionally, the Corporation made an additional principal payment of \$7.0 million, reducing the principal to \$15.0 million and amended the existing term loan facility agreement. The agreement was revised to reflect a term of 3 years. The interest rate of one month LIBOR plus 5.25% is consistent with the previous term loan agreement. In accordance with the amended agreement, the next principal payment on the term loan is payable on December 29, 2017 in the amount of \$3.0 million with a principal payment of \$5.0 million payable on December 28, 2018 and \$7.0 million payable on December 27, 2019. The loan has an effective interest rate of 6.30% plus one month LIBOR.

In connection with the origination of the term loan, the Corporation paid transaction costs relating to the loan closure in the amount of \$1.0 million, which included legal fees and other related borrowing costs. Transaction costs directly attributable to the issuance of the term loan are recognized as a reduction in the balance of the loan, and are amortized over the term of the loan using the effective interest rate method.

<i>(in thousands of USD)</i>	<b>September 30, 2017</b>	<b>June 30, 2017</b>
Total term debt	\$ 15,000	\$ 15,000
Less current portion of long-term debt	(3,000)	(3,000)
	12,000	12,000
Unamortized financing costs	(496)	(546)
Total long-term debt	\$ 11,504	\$ 11,454

The term loan is secured by the following: (i) a security interest in substantially all of the personal property of Ceres; (ii) a charge and mortgage over substantially all of the real property and elevator assets held by

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Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

Riverland Ag; and (iii) a pledge of substantially all of the equity interests and investment property held by the Corporation.

**(10) FINANCE INCOME (LOSS)**

The following table presents realized and unrealized gains (losses) on foreign exchange, currency-hedging transactions and the revaluation of portfolio investments for the quarters ended September 30, 2017 and 2016:

<i>(in thousands of USD)</i>	<u>2017</u>	<u>2016</u>
Realized and unrealized gains on foreign exchange	\$ 129	\$ 162
Realized and unrealized gains on currency hedging transactions	111	8
Revaluation of portfolio investments	<u>(486)</u>	<u>—</u>
Finance income (loss)	<u>\$ (246)</u>	<u>\$ 170</u>

**(11) INTEREST EXPENSE**

The following table presents interest expense for the quarters ended September 30, 2017 and 2016:

<i>(in thousands of USD)</i>	<u>2017</u>	<u>2016</u>
Interest on revolving line of credit	\$ (520)	\$ (427)
Interest on repurchase obligation	(37)	—
Interest on long-term debt	(246)	(355)
Amortization of financing costs paid	<u>(127)</u>	<u>(172)</u>
Interest expense	<u>\$ (930)</u>	<u>\$ (954)</u>

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Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

**(12) COMMON SHARES**

The following is a summary of the changes in the Common shares for the three-month period ended September 30, 2017 and twelve-month period ended June 30, 2017:

	<b><u>Common shares</u></b>	
	<b><u>Number of Shares</u></b>	<b><u>Amount</u></b> <i>(thousands of USD)</i>
Balances, June 30, 2016	26,889,055	\$ 199,606
Redemption of deferred share units	17,333	70
Repurchase under normal course issuer bid	(257,582)	(1,882)
Exercise of warrants	1,250,000	5,425
Directors' remuneration	10,790	44
	<hr/>	<hr/>
Balances, June 30, 2017	27,909,596	203,263
Directors' remuneration	1,418	6
	<hr/>	<hr/>
Balances, September 30, 2017	<u>27,911,014</u>	<u>\$ 203,269</u>

As at September 30, 2017 and June 30, 2017, directors and officers of the Corporation, through a controlled entity, beneficially own, directly or indirectly, or exercise control or direction over 43.7% and 43.6%, respectively, of the outstanding Common shares of the Corporation.

**(13) DEFERRED SHARE UNITS**

The following table summarizes the information related to deferred share units (“DSUs”):

	<b><u>Number of DSUs</u></b>
DSUs as at June 30, 2016	142,717
Units issued	58,201
Units redeemed	(17,333)
	<hr/>
DSUs as at June 30, 2017	183,585
Units issued	20,503
	<hr/>
DSUs as at September 30, 2017	<u>204,088</u>

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Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

**(14) STOCK OPTION PLAN**

During the quarter ended September 30, 2017, Ceres granted stock options (“options”) under the Corporation’s stock option plan to certain officers and employees of the Corporation. The exercise price is fixed by the Board of Directors at the time of grant; provided that the exercise price shall not be less than fair market value of the common shares. As at September 30, 2017, the outstanding Options are as follows:

	<u>Number of Options</u>	<u>Weighted- average exercise price (CAD)</u>	<u>Weighted- average remaining contractual term (years)</u>
Outstanding as at June 30, 2016	278,331	\$ 6.71	4.53
Granted	892,826	5.84	4.11
Exercised	—	—	
Expired/forfeited	(79,278)	6.75	
Outstanding as at June 30, 2017	<u>1,091,879</u>	<u>6.00</u>	<u>3.91</u>
Granted	148,000	5.84	4.93
Exercised	—	—	
Expired/forfeited	(13,042)	6.61	
Outstanding as at September 30, 2017	<u>1,226,837</u>	<u>\$ 5.97</u>	<u>3.68</u>

At the grant date, the fair value of the Options was estimated using the Black-Scholes pricing model with the following weighted-average assumptions: an average risk free interest rate of 1.64%; expected volatility of 20.5%; dividend yield of nil; an average expected option life of 5.0 years; and an average exercise price of CAD \$5.84. The weighted average grant date fair value of the Options granted during the quarter ended June 30, 2017, is CAD \$0.53 and CAD \$0.96 for the quarter ended September 30, 2016. As at September 30, 2017 and June 30, 2017, outstanding Options had exercise prices ranging from CAD \$5.84 to CAD \$6.75.

The total Option compensation cost included in general and administrative expenses for the quarter ended September 30, 2017 amounted to \$48 thousand and \$20 thousand for the quarter ended September 30, 2016, with the non-cash expense being accrued and classified within contributed surplus in the Interim Condensed Consolidated Balance Sheet.

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Notes to Interim Condensed Consolidated Financial Statements

September 30, 2017 and 2016

**(15) KEY MANAGEMENT COMPENSATION**

The remuneration of key management personnel of the Corporation, which includes both members of the Board of Directors and leadership team including the President and CEO, CFO and vice presidents, is set out below in aggregate:

*(in thousands of USD)*

	<u>2017</u>	<u>2016</u>
Salary and short-term employee/director benefits	\$ 290	\$ 255
Share-based compensation	18	71
	<u>\$ 308</u>	<u>\$ 326</u>

**(16) CONTINGENT LIABILITIES**

The Corporation is involved in various legal claims and legal notices arising in the ordinary course of business. The Corporation believes it has adequately assessed each claim, and the necessity of a provision for such claims. As at September 30, 2017 and June 30, 2017, the Corporation has no provision for any of these legal claims.

During the year ended March 31, 2014, Ceres terminated its arrangements and ongoing discussions with The Scoular Company (“Scoular”) as a potential development partner with respect to the development and construction of a grain facility at Northgate Commodities Logistics Centre (NCLC). Since the termination of discussions, Scoular filed a breach of contract claim for injunctive relief and unspecified damages. The Corporation intends to vigorously defend the lawsuit. A trial by jury is expected to start in Q3 of fiscal year 2018.

The outcome of this complaint is difficult to assess or quantify. The plaintiff may seek recovery of large or indeterminate amounts, and the magnitude of the potential loss may remain unknown for substantial periods of time. The cost to defend this complaint may be significant. In addition, this complaint, if decided adversely to the Corporation or settled by the Corporation, may result in a liability material to the Corporation’s financial statements as a whole or may materially and adversely affect the Corporation’s business, financial position, cash flow and/or results of operations.