

Consolidated Financial Statements of



For the years ended June 30, 2019 and 2018
(Expressed in US Dollars)

CERES GLOBAL AG CORP.

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Management’s Responsibility for Financial Reporting

These consolidated financial statements of the Corporation are the responsibility of management. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards (“IFRS”) using information available to September 17, 2019 and management’s best estimates and judgments, where appropriate.

Management has established a system of internal accounting and administrative controls to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly authorized and recorded, and financial records are properly maintained for the preparation of reliable financial statements.

The Board of Directors discharges its responsibility for the consolidated financial statements primarily through its Audit Committee, which comprises members of the Board of Directors. The Audit Committee meets with management and with the external auditors to discuss the results of the audit examination and review the consolidated financial statements of the Corporation. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors. The financial statements have been approved by the Board of Directors and have been audited by Baker Tilly WM LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards. Their Independent Auditor’s Report outlines their responsibilities, the scope of their audit, and their opinion on the accompanying consolidated financial statements. Baker Tilly WM LLP has full and unrestricted access to the Audit Committee.

Robert Day
President and CEO

Kyle Egbert
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ceres Global Ag Corp.:

Opinion

We have audited the consolidated financial statements of Ceres Global Ag Corp. and its subsidiaries (together the “entity”), which comprise the consolidated balance sheets as at June 30, 2019 and June 30, 2018, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the entity and its subsidiaries as at June 30, 2019 and June 30, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the entity and its subsidiaries in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- The information included in the Management's Discussion and Analysis filed with the relevant Canadian securities commissions; and,
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in our audits and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Management's Discussion and Analysis as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Anna C. Moreton.

Baker Tilly WM LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, B.C.

September 17, 2019

CERES GLOBAL AG CORP.

Consolidated Balance Sheets

<i>(In thousands of USD)</i>	Assets	June 30, 2019	June 30, 2018
Current assets:			
Cash		\$ 1,889	\$ 960
Due from brokers (Note 6)		2,420	1,923
Unrealized gains on open cash contracts (Note 8)		6,171	8,131
Accounts receivable		15,235	16,580
Accounts receivable due from associates (Note 16)		134	29
Inventories, grains (Note 5)		75,065	43,952
Prepaid expenses and sundry assets		1,659	1,946
Portfolio investments (Note 8)		766	2,694
Total current assets		103,339	76,215
Deferred tax asset (Note 19)		—	172
Investments in associates (Note 7)		6,871	7,289
Property, plant and equipment (Note 9)		102,004	104,025
Intangible assets		300	300
Other assets		450	—
Total assets		\$ 212,964	\$ 188,001
	Liabilities and Shareholders' Equity		
Current liabilities:			
Bank indebtedness (Note 10)		\$ 33,694	\$ 10,910
Current portion of term loan (Note 11)		4,894	5,000
Accounts payable and accrued liabilities		23,944	16,574
Accounts payable due to associates (Note 16)		51	36
Unrealized losses on open cash contracts (Note 8)		3,435	3,323
Contingent consideration - current (Note 17)		600	—
Total current liabilities		66,618	35,843
Term loan (Note 11)		14,714	4,661
Contingent consideration - non-current (Note 17)		868	—
Total liabilities		82,200	40,504
Shareholders' equity:			
Common shares (Note 14)		203,358	203,358
Deferred share units (Note 15)		1,387	801
Contributed surplus		9,475	9,771
Accumulated other comprehensive income (loss)		(22,239)	(22,355)
Deficit		(61,217)	(44,078)
Total shareholders' equity		130,764	147,497
Legal (Note 20)		—	—
Subsequent events (Note 21)		—	—
Total liabilities and shareholders' equity		\$ 212,964	\$ 188,001

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

ON BEHALF OF THE BOARD

Signed "Gary Mize" Director

Signed "Doug Speers" Director

CERES GLOBAL AG CORP.

Consolidated Statements of Comprehensive Income (Loss)

Twelve months ended June 30, 2019 and 2018

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

	<u>2019</u>	<u>2018</u>
Revenues	\$ 438,396	\$ 411,122
Cost of sales (Note 5)	<u>(424,076)</u>	<u>(399,452)</u>
Gross profit	14,320	11,670
General and administrative expenses	<u>(13,031)</u>	<u>(11,893)</u>
Income (loss) from operations	1,289	(223)
Finance income (loss) (Note 12)	(2,068)	(357)
Interest expense (Note 13)	(4,552)	(3,172)
Amortization of intangible assets (Note 17)	(3,968)	—
Revaluation of stock appreciation right liability	379	—
Legal settlement (Note 20)	(8,228)	—
Gain (loss) on equity investments (Note 7)	—	3,675
Gain (loss) on property, plant and equipment (Note 9)	<u>696</u>	<u>(299)</u>
Income (loss) before income taxes and undernoted items	(16,452)	(376)
Income tax (expense) recovered (Note 19)	4	38
Share of net loss of associates (Note 7)	<u>(423)</u>	<u>(218)</u>
Net income (loss)	(16,871)	(556)
Components of comprehensive income (loss):		
Gain (loss) on currency translation adjustment	<u>116</u>	<u>(970)</u>
Total comprehensive income (loss)	<u>\$ (16,755)</u>	<u>\$ (1,526)</u>
Basic weighted-average number of shares for the year	27,934,991	27,924,308
Diluted weighted-average number of shares for the year	29,029,087	27,924,308
Loss per share:		
Basic	\$ (0.60)	\$ (0.02)
Diluted	(0.58)	(0.02)
Supplemental disclosure of selected information:		
Depreciation included in Cost of sales	\$ (4,466)	\$ (4,874)
Depreciation included in General and administrative expenses	(101)	(75)
Amortization of financing costs included in Interest expense	(681)	(450)
Personnel costs included in Cost of sales	(6,091)	(5,564)
Personnel costs included in General and administrative expenses	(7,443)	(6,860)

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

CERES GLOBAL AG CORP.

Consolidated Statements of Cash Flows

Twelve months ended June 30, 2019 and 2018

<i>(In thousands of USD)</i>	2019	2018
Operating activities:		
Net loss	\$ (16,871)	\$ (556)
Adjustments for:		
Depreciation and amortization	8,535	4,949
Interest expense	4,552	3,172
Loss (gain) on equity method investment	—	(3,675)
Bad debt expense	20	315
Accretion of contingent consideration	138	—
Revaluation of portfolio investments	1,885	486
disposal of property, plant, and equipment	(696)	299
Deferred income tax	172	(172)
Share-based compensation	34	363
Share of net loss of associates	423	218
Revaluation for future payments to Front Street Capital	—	(11)
Revaluation of stock appreciation rights liability	(379)	—
Revaluation of foreign denominated accounts	(15)	(7)
Changes in non-cash working capital accounts:		
Due from brokers	(497)	(95)
Net open cash contracts	2,072	(8,396)
Accounts receivable	1,610	5,821
Accounts receivable due from associates	(105)	(29)
Inventories, grains	(30,602)	51,560
Prepaid expenses and sundry assets	287	(814)
Accounts payable and accrued liabilities	9,440	(6,264)
Accounts payable due to associates	15	37
Other assets and liabilities	(450)	—
Interest paid	(3,822)	(2,849)
Net cash provided by (used in) operating activities	(24,254)	44,352
Investing activities:		
Disposition of assets held for sale	696	(63)
Net proceeds from sale of equity method investment	—	8,205
Acquisition of Nature's Organic Grist, LLC, net	(2,340)	—
Acquisition of property, plant and equipment	(5,248)	(1,345)
Net cash provided by (used in) investing activities	(6,892)	6,797
Financing activities:		
Net proceeds (repayment) of bank indebtedness	23,000	(45,595)
Proceeds from term debt	20,000	(5,000)
Repayment of term debt	(10,000)	—
Financing costs paid	(944)	(181)
Net cash provided by (used in) financing activities	32,056	(50,776)
Effect of exchange rate changes on cash	19	2
Increase in cash	929	375
Cash, beginning of year	960	585
Cash, end of year	\$ 1,889	\$ 960

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

CERES GLOBAL AG CORP.

Consolidated Statements of Changes in Shareholders' Equity

Twelve months ended June 30, 2019 and 2018

<i>(In thousands of USD)</i>	Common shares	Deferred share units	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Balances, June 30, 2018	\$ 203,358	\$ 801	\$ 9,771	\$ (22,355)	\$ (44,078)	\$ 147,497
Issuance of Deferred Share Units	—	318	—	—	—	318
Reclassification of Deferred Share Units	—	268	—	—	(268)	—
Share-based compensation	—	—	(296)	—	—	(296)
Net income (loss)	—	—	—	—	(16,871)	(16,871)
Other comprehensive income (loss)	—	—	—	116	—	116
Foreign currency translation adjustments	—	—	—	—	—	—
Balances, June 30, 2019	<u>\$ 203,358</u>	<u>\$ 1,387</u>	<u>\$ 9,475</u>	<u>\$ (22,239)</u>	<u>\$ (61,217)</u>	<u>\$ 130,764</u>
Balances, June 30, 2017	\$ 203,263	\$ 771	\$ 9,632	\$ (21,385)	\$ (43,522)	\$ 148,759
Issuance of Deferred Share Units	—	323	—	—	—	323
Redemption of Deferred Share Units	82	(82)	—	—	—	—
Fair value adjustment of Deferred Share Units	—	(211)	—	—	—	(211)
Share-based compensation	13	—	210	—	—	223
Stock option modification	—	—	(71)	—	—	(71)
Net income (loss)	—	—	—	—	(556)	(556)
Other comprehensive income	—	—	—	(970)	—	(970)
Foreign currency translation adjustments	—	—	—	—	—	—
Balances, June 30, 2018	<u>\$ 203,358</u>	<u>\$ 801</u>	<u>\$ 9,771</u>	<u>\$ (22,355)</u>	<u>\$ (44,078)</u>	<u>\$ 147,497</u>

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

Ceres Global Ag Corp.
Notes to the Consolidated Financial Statements
June 30, 2019 and June 30, 2018 (Expressed in USD)

(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 Golden Valley, Minnesota, United States.

These consolidated financial statements of Ceres as at and for the years ended June 30, 2019 and 2018 include the accounts of Ceres and its wholly owned subsidiaries Ceres U.S. Holding Corp. (Delaware), Riverland Ag Corp. (Delaware) (“**Riverland Ag**”), Nature’s Organic Grist LLC (“**NOG**”), and Ceres Global Ag Corp. Mexico S.A. DE C.V. 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 29.7 million bushels. NOG is a supplier of organic grains and ancient grains (including emmer and einkorn), milled flours, and feed products.

(2) BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The accounting, estimation and valuation policies, as described below, have been consistently applied to all periods presented herein.

These consolidated financial statements were authorized for issue by the Board of Directors of the Corporation on September 17, 2019.

Functional and presentation currency

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

- Derivative financial instruments are measured at fair value;
- Assets held for sale are measured at fair value less costs to sell;
- Financial instruments at fair value through profit or loss or fair value through other comprehensive income are measured at fair value; and
- Inventories of grains are measured at fair value less costs to sell.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition, net sales and cost of sales

The Corporation’s grain revenue transactions consist of a single performance obligation to transfer promised goods. The Corporation recognizes revenue when it has fulfilled a performance obligation, which is typically

Ceres Global Ag Corp.
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when the grain is shipped from the Ceres facility. In accordance with IFRS 15, the Corporation follows a policy of recognizing sales revenue at the time of delivery of the product and when all the following have occurred: a sales agreement is in place, title and risk of loss have passed, pricing is fixed or determinable, and collection is reasonably assured. Grain storage, rental and other operating income are recorded as earned on an accrual basis. Freight costs and handling charges related to sales are presented gross in Revenues and Cost of sales.

Other direct and indirect costs associated with inventory and storage, including payroll and benefits of elevator employees, depreciation of buildings, silos and elevators, utilities and other similar costs are classified within Cost of sales. Income and expenses are recorded on an accrual basis. Investment transactions are recognized on the trade date. Dividend revenues are recognized on the ex-dividend date. Interest is recognized as earned using the effective interest method. Realized gains and losses from the sale of investments are calculated using the average cost method. The change over a reporting period of the difference between the fair value and the cost of portfolio investments is recognized as a revaluation of portfolio investments in Finance income (loss) in profit or loss.

Investments in associates and joint arrangements

Associates are entities in which Ceres has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Corporation holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The Corporation's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Corporation's share of the after-tax net income (or net loss) and of the changes in equity during a reporting period, after adjustments (if any) to align the associate's accounting policies with those of the Corporation, from the date that significant influence commences until the date that significant influence ceases. If the Corporation's accumulated share of net losses in an associate were to exceed the carrying amount of its interest in that associate, the carrying amount of that interest, would be reduced to nil and the recognition of further losses would be discontinued except to the extent the Corporation were to have an obligation or were to have made payments on behalf of the associate.

The Corporation reviews its investments in associates for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investments may not be recoverable. Evidence of impairment in value might include the absence of an ability to recover the carrying amount of the investments, the inability of the associates to sustain earnings capacity that would justify the carrying amount of the investments or, where applicable, estimated sales proceeds that are insufficient to recover the carrying amount of the investments. If the recoverable amount of the investments is determined to be less than the carrying amount, an impairment write-down is recorded based on the excess of the carrying amount over management's estimate of the recoverable amount.

Investments in joint ventures, over which the Corporation has joint control, are accounted for using the equity method. Under the equity method of accounting, investments are initially recorded at cost, and the carrying amount is increased or decreased to recognize the Corporation's share of the investee's net profit or loss.

Transaction costs

Portfolio transaction costs include brokerage commissions incurred in the purchase and sale of portfolio securities in which Ceres invests. Corporate transaction costs include costs directly attributable to the

Ceres Global Ag Corp.
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acquisition of subsidiaries and the investments in associates. All such costs are expensed in the period incurred and classified as General and administrative expenses in profit or loss.

Transaction costs related to the issuance of equity instruments of the Corporation or its subsidiaries are accounted for as a reduction of the stated capital of the equity securities issued. Transaction costs related to the issuance of debt instruments of the Corporation or its subsidiaries are considered in the determination of amortized cost. Transaction costs related to bank indebtedness are amortized using the straight-line method over the term of the financing arrangement, while transaction costs for long-term debt are amortized using the effective interest method.

Classification and measurement of financial instruments

Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Corporation’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Corporation has applied the practical expedient, the Corporation initially measures a financial asset at its fair value plus, in the case of a financial asset not a fair value through profit or loss, transactions costs. Trade receivables that do not contain a significant financing component or for which the Corporation has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Corporation’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial asset, or both.

Purchases or sales of financial assets that required delivery of assets within a time frame established by regulation or convention in the market place are recognized on the trade date.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Equity

Common shares

Common shares and certain warrants are classified as equity. Incremental costs directly attributable to the issue of common shares and warrants are recognized as a deduction from equity, net of the effects of income taxes, if any.

Ceres Global Ag Corp.
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Contributed surplus

The value of warrants issued that have expired is recognized as contributed surplus, net of the effects of income taxes, if any.

Repurchase of common shares

When common shares recognized as equity are repurchased, the amount of the consideration paid (which may include directly attributable transaction costs) is recognized as a deduction from equity, net of the effects of income taxes, if any. The portion of the consideration paid that represents the value of the stated capital of the shares repurchased is deducted from the carrying amount of common shares. Any difference between the total consideration paid and the stated capital amount of the shares repurchased is added to (or deducted from) retained earnings (deficit), as applicable.

Valuation of investments

As at a reporting date, the fair value of financial instruments traded in active markets (primarily equity securities of public companies and related derivative instruments, if any) is based on the bid price for investments held by the Corporation, and on the asking price for investments sold short, if any. The fair value of financial instruments not traded in an active market (including but not limited to: securities in private companies, warrants and restricted securities) is determined using valuation techniques. Depending on various circumstances, the Corporation may use several methods and makes assumptions based on market conditions existing at each reporting date. Valuation techniques may include, without limitation, the use of comparable recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Recognition of investments

Purchases and sales of investments are recognized on the trade date, being the date on which the Corporation commits to purchase or sell an investment. Investments cease to be recognized when the rights to receive cash flows from the investments have expired or the Corporation has transferred substantially all risks and rewards of ownership.

Derivative contracts

Ceres may purchase forward foreign exchange contracts to act as an economic hedge against assets and liabilities denominated in foreign currencies. As at a reporting date, forward foreign exchange contracts are valued based on the difference between the forward contract rate and the forward bid rate (for currency held). Unrealized gains and losses, if any, on these forward contracts used to hedge foreign currency assets and liabilities are presented separately on the Balance Sheet and included in Unrealized gains (losses) on open cash contracts, as applicable, and are recognized in profit or loss as a component of Finance income (loss) and included with the revaluation of portfolio investments. Upon the closing out of these contracts, any gains or losses on foreign exchange are reported in Finance income (loss) in profit or loss as realized gain (loss) on currency hedging transactions.

To reduce price risk caused by market fluctuations, the Corporation generally follows a policy of using exchange-traded futures and options contracts to minimize its net position of merchandisable agricultural commodity inventories and forward cash purchase and sales contracts. The Corporation will also use exchange-traded futures and options contracts as components of merchandising strategies designed to enhance margins. The results of these strategies may be significantly influenced by factors such as the

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volatility of the relationship between the value of exchange-traded commodities futures contracts and the cash prices of the underlying commodities, and volatility of freight markets. Derivative contracts have not been designated, and are not accounted for, as fair value hedges. Management determines fair value based on exchange-quoted prices, and in the case of its forward purchase and sale contracts, estimated fair value is adjusted for differences in local markets. Realized and unrealized gains and losses in the value of inventories of merchandisable agricultural commodities, forward cash purchase and sales contracts, and exchange-traded futures contracts are recognized in profit or loss as a component of Cost of sales. Unrealized gains and losses on these derivative contracts are recognized in earnings and classified on the Balance Sheet as Due from Broker, Unrealized gains (losses) on open cash contracts, as applicable.

Fair value measurements

The Corporation uses a valuation hierarchy as a framework for disclosing fair values, based on the inputs to measure the fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities including exchange-traded derivative contracts that can be assessed at measurement date;

Level 2 – inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs are unobservable inputs based on the Corporation’s own assumptions used to measure assets and liabilities at fair value.

Foreign currency translation, transactions of Canadian dollar functional currency entities

Foreign currency transactions are translated into CAD using the exchange rates prevailing at the dates of the transactions. As at a reporting date, assets and liabilities denominated in a foreign currency are translated into CAD, as follows:

- Foreign currency monetary items are translated using the spot exchange rate in effect at the reporting date, and;
- Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate(s) in effect as at the date(s) on which fair value was determined.

Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation as at a reporting date of assets and liabilities denominated in foreign currencies are reflected in profit or loss. Translation gains or losses on securities included in the investment portfolio of the Corporation are recognized as Finance income (loss) in profit or loss and classified with the revaluation of portfolio investments.

Foreign currency translation, non-USD functional currency entities

For the preparation of these consolidated financial statements, all assets and liabilities are translated into the presentation currency of U.S. dollars (“USD”) using the foreign exchange rate in effect as at the reporting date with Net and comprehensive income (loss) accounts translated using the average exchange rate for the reporting or applicable period. Translation adjustments arising from changes in exchange rates are reported as a component of other comprehensive income and form part of the cumulative translation account in shareholders’ equity. When a foreign operation is disposed of such that control, significant influence or joint

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control is lost, the cumulative amount in the translation account related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal.

Finance income (loss)

Finance income (loss) pertains to revenues, gains and losses related to the investing activities of the Corporation, and includes:

- Dividend revenues, if any, from portfolio investments;
- Realized gains (losses) on portfolio investments;
- Realized and unrealized gains (losses) on currency-hedging transactions;
- Realized and unrealized gains (losses) on foreign exchange; and
- Unrealized increase (decrease) in fair value of portfolio investments.

Interest expense

Interest expense represents the aggregate of interest expense on borrowings and the amortization of financing transaction costs.

Inventories

Inventories represent agricultural grain, ancient grains, and oilseed commodities and are stated at fair value less costs to sell. Fair value is primarily determined from market prices quoted on public commodity exchanges, adjusted for expected freight costs to normal delivery points and a price premium or discount to cover local supply and demand factors as estimated by management. Changes in the fair value less costs to sell of inventories of agricultural grain commodities are recognized in profit or loss as and when they occur, and such changes are included as a component of Cost of sales.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate. Costs are capitalized only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. When parts of an item of property and equipment have different useful lives, they are accounted for as separate components of property and equipment and depreciated accordingly. The carrying amount of a replaced component is derecognized.

Repairs and maintenance costs are expensed as incurred.

Property, plant and equipment are reviewed for impairment at the end of each reporting period to assess whether there is any indication of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated as the higher of fair value less costs of disposal and value in use. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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Land is not depreciated. Depreciation on the other assets is provided for on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings, silos/elevators, and improvements	15 – 31 years
Machinery and equipment	7 – 15 years
Furniture, fixtures, office equipment, and other assets	3 – 7 years

Gains and losses on disposals of property, plant and equipment are determined by comparing the disposal proceeds with the carrying amount of the asset and are included in profit or loss as gain (loss) on property, plant and equipment.

Repurchase obligations

The Corporation periodically enters into sale/repurchase agreements whereby the Corporation receives cash in exchange for selling inventory to a commodity trading financial institution and the Corporation agrees to repurchase the inventory from the financial institution at a fixed rate on a future date. The Corporation accounts for these as product financing arrangements and, accordingly, these transactions are treated as borrowings and commodity inventory in the Corporation's consolidated financial statements and no sales and purchases are reported in the consolidated financial statements.

Income taxes

Income tax expense (recovered) comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss, except to the extent that they relate to a business combination, or to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, measured using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted as at the reporting date. Deferred tax assets and liabilities are offset to the extent that they relate to income taxes levied on the same taxable entity by the same taxation authority.

A deferred tax asset is recognized for unused tax losses and tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Earnings (loss) per Share

Earnings (loss) per Share (“EPS”) is reported for basic and diluted net income (loss). Basic EPS is calculated by dividing net income (loss) for the reporting period by the weighted-average number of common shares outstanding during the reporting period. Diluted EPS is calculated by adjusting net income (loss) and the weighted-average number of common shares outstanding for the effects, if any, of all potentially dilutive common shares, resulting from the exercise of options or the redemption of Deferred Share Units outstanding as at the end of a reporting period. The effect of the potential issuance of common shares related to the redemption of Deferred Share Units or exercise of options on diluted EPS has not been presented, as it is anti-dilutive in a period of loss.

Share-based payments

Deferred Share Unit

The Corporation has established a Directors’ Deferred Share Unit Plan (the “DSU Plan”), which became effective on March 10, 2014 and is an equity-settled share-based payment plan. Under the DSU Plan, a director who is not an employee of the Corporation or any affiliate (including any non-executive Chair of the Board) is an Eligible Director. Any Eligible Director may elect to receive some or all of the Annual Cash Remuneration amount (as defined in the DSU Plan) for that Director in the form of Deferred Share Units (“DSUs”). DSUs are settled by the issuance of common shares on the Entitlement Date (as defined under the DSU Plan), which is a date after the end of a director’s term of service with the Board.

As at the dates on which DSUs are issued under the Plan, the Corporation recognizes as an expense the portion of the Directors’ fees issued in the form of DSUs issued to the Director, which are issued at fair value, and the Corporation increases shareholders’ equity by an equal amount.

Stock Options

Stock options are equity-settled share-based payment transactions. The Corporation follows the fair value method to measure stock option awards it grants to certain officers, key employees and consultants of the Corporation and its subsidiaries. The fair value of stock options on the date the options are granted is determined by the Black Scholes option pricing model with assumptions for risk-free interest rate, dividend yield, volatility of the expected market price of the Corporation’s common shares and expected life of the options. The number of stock option awards expected to vest are estimated using a forfeiture rate based on historical experience and future expectations, as applicable. Expected annual volatility is estimated using historical volatility. Compensation is amortized to earnings over the vesting period of the related options. The Corporation uses graded or accelerated amortization, which specifies that each vesting tranche must be accounted for as a separate arrangement with a unique fair value measurement. Each vesting tranche is subsequently amortized separately and in parallel from the grant date.

Stock Appreciation Rights

Stock Appreciation Rights (“SARs”) may be granted to officers, certain employees and consultants of the Corporation on such terms and conditions determined by the Board of Directors (the “Board”). Stand Alone SARs are cash-settled share-based payment transactions and are measured at the fair value of the liability as at the date the Stand-Alone SARs are vested. At the end of each reporting period, the Corporation re-measures the fair value of the liability for such Stand-Alone SARs, and any changes in fair value of that liability is recognized in profit or loss for the period. Tandem SARs are granted with stock options. Tandem SARs may be settled by the payment or the delivery of cash or common shares, as may be determined by the Board. Any portion of Tandem SARs to be settled for cash is measured using the measurement standards described for Stand-Alone SARs. The portion, if any, of the Tandem SARs to be settled by the issuance of common shares

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is measured using the measurement standards that apply to stock options awards, as described in the preceding paragraph.

Option-pricing models require the use of highly subjective estimates and assumptions; including the expected share price volatility. Changes in the underlying assumptions can materially affect fair value estimates. Therefore, existing models do not necessarily provide reliable measurement of the fair value of the Corporation's share-based payments.

Recently adopted accounting standards

IFRS 9 – Financial Instruments

Beginning on July 1, 2018, the Company adopted IFRS 9, Financial Instruments retrospectively with no restatement of comparative periods which replaces IAS 39 Financial Instruments: Recognition and Measurement and provides detailed guidance for financial assets and liabilities, impairment of financial assets, and hedge accounting. IFRS 9 contains a new classification and measurement approach for financial assets to be classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”), and fair value through profit and loss (“FVTPL”) and eliminates the existing IAS 39 categories of held to maturity, loans and receivables, and available-for-sale.

For impairment of financial assets, IFRS 9 replaced the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” model. The new impairment model will apply to financial assets measured at amortized cost or FVOCI and to contract assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as FVTPL are recognized in profit or loss, whereas under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in OCI, and the remaining amount of change in fair value is presented in profit or loss.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

There was no material impact to the Company's consolidated financial statements with regards to the changes in IFRS 9 on the classification and measurement of financial assets and liabilities and hedge accounting. The Corporation completed a detailed assessment of our financial assets and liabilities.

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The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash	Loans and receivables	FVTPL
Due from brokers	Loans and receivables	FVTPL
Unrealized gains/losses on open cash contracts	FVTPL	FVTPL
Accounts receivable	Amortized cost	Amortized cost
Accounts receivable due from associates	Amortized cost	Amortized cost
Portfolio investments	FVTPL	FVTPL
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Accounts payable due to associates	Amortized cost	Amortized cost
Share-based payment accruals, included in accounts payable	FVTPL	FVTPL
Bank indebtedness	Amortized cost	Amortized cost
Term debt	Amortized cost	Amortized cost
Contingent consideration	FVTPL	FVTPL

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers, replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and the related Interpretations on revenue recognition. IFRS 15 establishes a single comprehensive model for recognizing revenues from contracts with customers. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for transferring those goods and services.

The Corporation's grain revenue transactions consist of a single performance obligation to transfer promised goods. The Corporation recognizes revenue when it has fulfilled a performance obligation, which is typically when the grain is shipped from the Ceres facility. In accordance with IFRS 15, the Corporation follows a policy of recognizing sales revenue at the time of delivery of the product and when all the following have occurred: a sales agreement is in place, title and risk of loss have passed, pricing is fixed or determinable, and collection is reasonably assured. Grain storage, rental and other operating income are recorded as earned on an accrual basis. Freight costs and handling charges related to sales are presented gross in Revenues and Cost of sales.

The Company adopted IFRS 15 as of July 1, 2018 using the modified retrospective transition method, which involves not restating periods prior to the date of initial application. The application of IFRS 15 required no adjustment to the Company's consolidated financial statements for the year ended June 30, 2019, as the amount and timing of substantially all of its revenues is, and will continue to be, recognized at a point in time.

Future changes in accounting standards

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

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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 16 – Leases

In January 2016, the IASB issued IFRS 16, Leases. This new standard requires entities to recognize on its balance sheet assets and liabilities associated with the rights and obligations created by leases with terms greater than twelve months. This new standard is effective for annual reporting periods beginning on or after January 1, 2019, and interim periods within those annual periods. The Company has completed its evaluation of IFRS 16, including a review of each of its leases. The Company is adopting the new leasing standard effective July 1, 2019, electing the package of practical expedients, and expects to recognize approximately \$3.6 million in right-of-use assets and lease liabilities on the balance sheet upon adoption. The adoption of IFRS 16 is not expected to have a significant impact on the Company's results of operations or cash flows.

(4) SUMMARY OF SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

The timely preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. The following summarizes the accounting judgments, estimates and assumptions management considers significant:

Inventories and Commodity Derivatives

To reduce price risk caused by market fluctuations, the Corporation generally follows a policy of using exchange traded futures and options contracts to minimize its net position of merchandisable agricultural commodity inventories and forward cash purchase and sales contracts. The Corporation will also use exchange traded futures and options contracts as components of merchandising strategies designed to enhance margins. The results of these strategies can be significantly impacted by factors such as the volatility of the relationship between the value of exchange traded commodities futures contracts and the cash prices of the underlying commodities, and volatility of freight markets.

Derivative instruments, including futures contracts, forward commitments, options and other similar types of contracts and commitments based on commodity derivatives, are carried at their fair value. Management determines fair value based on exchange quoted prices and in the case of its forward purchase and sale contracts, estimated fair value is adjusted for differences in local markets. While the Corporation considers its commodity contracts to be effective economic hedges, the Corporation does not designate or account for its commodity contracts as hedges. Realized and unrealized gains and losses in the value of commodity contracts and grain inventories are recognized in cost of sales. Unrealized gains and losses on these derivative contracts are included in due from broker, and Unrealized gains (losses) on open cash contracts on the consolidated Balance Sheet.

Estimates and assumptions are required in determination of fair values of commodity inventories, particularly for those commodities where exchange-traded prices are not available. For these inventories, management assesses the available quoted market prices and applies judgment in determining the effect of local market conditions.

Business combinations

Judgment is used in determining whether a transaction is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss recognized in profit or loss.

Valuation of investments

Portfolio investments are measured at FVTPL, and may include securities not traded in an active market. The fair value of such securities is determined using valuation techniques. Depending on various circumstances, the Corporation may use several methods and makes assumptions based on market conditions existing at each reporting date. Valuation techniques may include, without limitation, the use of comparable recent arm's length transactions, discounted cash flow analysis, option-pricing models and other valuation techniques commonly used by market participants.

Functional Currency

The functional currency of the Corporation is the Canadian Dollar. Determination of the functional currency may involve certain judgments to determine the primary economic environment and this determination is re-evaluated for each new entity or if conditions change. Management has determined that the functional currency for the Canadian operations is the Canadian Dollar. Management has determined that the functional currency for the operations based in the United States is the United States Dollar.

(5) INVENTORIES

As at June 30, 2019 and June 30, 2018, the Corporation held \$75.1 million and \$44.0 million, of inventories at fair value less costs to sell, respectively. For the year ended June 30, 2019, inventories recognized as an expense through cost of sales totaled \$371 million. For the year ended June 30, 2018, inventories recognized as an expense through Cost of sales totaled \$370 million.

(6) DUE FROM (TO) 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.

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Amounts due from brokers consist of the following:

<i>(in thousands of USD)</i>	June 30, 2019	June 30, 2018
Margin deposits	\$ 2,127	\$ 2,216
Unrealized gains on futures contracts and options, at fair value	<u>293</u>	<u>271</u>
	2,420	2,487
Unrealized losses on futures contracts and options, at fair value	<u>—</u>	<u>(564)</u>
Due from brokers	<u><u>\$ 2,420</u></u>	<u><u>\$ 1,923</u></u>

(7) INVESTMENTS IN ASSOCIATES

<i>(in thousands of USD)</i>	June 30, 2019	June 30, 2018
Savage Riverport, LLC., common shares	\$ 4,653	\$ 4,860
Stewart Southern Railway Inc., common shares	<u>2,218</u>	<u>2,429</u>
	<u><u>\$ 6,871</u></u>	<u><u>\$ 7,289</u></u>

(a) Savage Riverport, LLC (“Savage Riverport”)

Savage Riverport is a joint venture in which the Corporation has joint control and a 50% ownership interest. Savage Riverport was founded by the Corporation and Consolidated Grain and Barge (“CGB”) on April 30, 2018. The Corporation transferred the grain elevator and related assets at its Savage, Minnesota facility, which had net book value of \$9.4 million as at April 30, 2018, to the newly formed entity. Savage Riverport, is principally engaged in grain, storage, and handling, and based in Savage, MN. Subsequent to the transaction, Ceres received cash of \$8.5 million in exchange for 50% of the equity in Savage Riverport, of which, \$2.0 million was utilized to pay down the term debt. The sale of the equity in Savage Riverport net of transaction fees resulted in a gain of \$3.7 million. The Corporation will recognize the remaining gain of \$3.8 million over the useful life of the contributed assets.

Ceres holds a 50% equity interest in Savage Riverport. Major operating decisions of Savage Riverport are made by its Board of Directors and Ceres does not have a majority of the board seats.

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Due to these factors, Ceres has joint control of Savage Riverport, and accounts for its investment in Savage Riverport using the equity method.

	June 30, 2019	June 30, 2018
Beginning investment balance	\$ 4,860	\$ —
Asset contribution to Savage Riverport, LLC	—	9,360
Sale of 50% equity to CGB	—	(4,680)
Equity investment in joint venture	<u>4,860</u>	<u>4,680</u>
Working capital contribution	—	150
Corporation 50% share of joint venture net income (loss)	(554)	(28)
Amortization of deferred gain	<u>347</u>	<u>58</u>
Ending investment in Savage Riverport, LLC	<u><u>\$ 4,653</u></u>	<u><u>\$ 4,860</u></u>

Included below is summary balance sheet and profit and loss information of Savage Riverport as at June 30, 2019 and 2018:

(in thousands of USD)

	June 30, 2019	June 30, 2018
Current assets	\$ 457	\$ 697
Non-current assets	<u>16,070</u>	<u>16,868</u>
Total assets	16,527	17,565
Current liabilities	<u>390</u>	<u>321</u>
Net assets	<u><u>16,137</u></u>	<u><u>17,244</u></u>
The following amounts have been included in the amounts above:		
Cash and cash equivalents	\$ 192	\$ 342

(in thousands of USD)

	Period ended	
	June 30, 2019	June 30, 2018
Revenues	\$ 2,846	\$ 729
Loss from continuing operations	(1,159)	(56)
Net and comprehensive loss	(1,108)	(56)
The following amounts have been included in the amounts above:		
Depreciation and amortization	\$ 1,187	\$ 197

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Included below is a reconciliation of Savage Riverport's equity to the carrying value reported on the Consolidated Balance Sheets as at June 30, 2019 and June 30, 2018:

	June 30, 2019	June 30, 2018
Opening net assets of Savage Riverport, LLC	\$ 17,244	\$ —
Investment in Savage Riverport, LLC	—	17,000
Working capital contributions	—	300
Joint venture net loss	(1,108)	(56)
Closing net assets of Savage Riverport, LLC	16,136	17,244
Corporation's share of net assets at 50%	8,068	8,622
Deferred gain on disposal of asset	(3,762)	(3,820)
Plus: Amortization of deferred gain	347	58
Investment in Savage Riverport, LLC	<u>\$ 4,653</u>	<u>\$ 4,860</u>

For the year ended June 30, 2019, the Corporation's consolidated profit or loss included the Corporation's share in the net loss of Savage Riverport's equity, after recognition of the amortization of deferred gain, is a loss of \$207 thousand compared to 2018 net income of \$30 thousand. During the years ended June 30, 2019 and 2018, the Corporation did not receive a dividend from Savage Riverport, LLC.

(b) Investment in Stewart Southern Railway Inc. ("SSR")

Ceres holds a 25% equity interest in SSR, a Canadian private company. Ceres also holds rights to a 25% voting position on SSR's Board of Directors. SSR operates a 132-kilometre (82-mile) short-line railway in southeastern Saskatchewan. Major operating decisions of SSR are made by its Board of Directors and Ceres does not have a majority of the board seats. Due to these factors, Ceres does not control SSR, and accounts for its investment in SSR using the equity method.

<i>(in thousands of USD)</i>	Year ended	
	June 30, 2019	June 30, 2018
Revenues	\$ 891	\$ 709
Income (loss) from continuing operations	(1,153)	(1,462)
Net and comprehensive income (loss)	(844)	(990)
Current assets	\$ 1,163	\$ 1,606
Non-current assets	7,581	7,862
Current liabilities	301	106
Non-current liabilities	24	96

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For the year ended June 30, 2019, the Corporation's consolidated profit or loss included the Corporation's share in the net loss of SSR's equity of \$216 thousand (2018: net loss of \$248 thousand). During the year ended June 30, 2019 and 2018, the Corporation did not receive a dividend from SSR.

Included below is a reconciliation of the Corporation's 25% portion in SSR's equity to the carrying value reported on the Consolidated Balance Sheets as at June 30, 2019 and June 30, 2018:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Investee's equity as at reporting date	\$ 8,420	\$ 9,266
Corporation's 25% portion of SSR equity	2,105	2,316
Goodwill	113	113
Carrying Value	<u>\$ 2,218</u>	<u>\$ 2,429</u>

Reconciliation of the Corporation's share in net income of SSR to carrying value:

(in thousands of USD)

	<u>Level 3</u>
Investee's equity at beginning of year	\$ 2,429
Ceres' share in SSR net income	(216)
Currency translation differences	5
Balance at June 30, 2019	<u>\$ 2,218</u>

(8) 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 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 year ended June 30, 2019.

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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.

<i>(in thousands of USD)</i>	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash	\$ 1,889	\$ —	\$ —	\$ 1,889
Portfolio investments	—	—	766	766
Due from broker, margin deposits (note 6)	2,127	—	—	2,127
Due from broker, unrealized gains on futures and options (note 6)	293	—	—	293
Unrealized gains on open cash contracts (derivatives)	—	6,171	—	6,171
Due from broker, unrealized losses on futures and options (note 6)	—	—	—	—
Unrealized losses on open cash contracts (derivatives)	—	(3,435)	—	(3,435)
Contingent consideration (note 17)	—	—	(1,468)	(1,468)
Stock appreciation right liability included in accounts payable	—	—	(289)	(289)
	<u>\$ 4,309</u>	<u>\$ 2,736</u>	<u>\$ (991)</u>	<u>\$ 6,054</u>

<i>(in thousands of USD)</i>	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash	\$ 960	\$ —	\$ —	\$ 960
Portfolio investments	—	—	2,694	2,694
Due from broker, margin deposits (note 6)	2,216	—	—	2,216
Due from broker, unrealized gains on futures and options (note 6)	271	—	—	271
Unrealized gains on open cash contracts (derivatives)	—	8,131	—	8,131
Due from broker, unrealized losses on futures and options (note 6)	(564)	—	—	(564)
Unrealized losses on open cash contracts (derivatives)	—	(3,323)	—	(3,323)
	<u>\$ 1,923</u>	<u>\$ 4,808</u>	<u>\$ 2,694</u>	<u>\$ 9,425</u>

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Reconciliation of Level 3 fair values:

(in thousands of USD)

	Level 3
Balance at June 30, 2018	\$ 2,694
Revaluation of portfolio investments	(1,885)
Currency translation differences	(43)
Balance at June 30, 2019	\$ 766

Management of financial instrument 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 June 30, 2019, the Corporation's market risk pertaining to portfolio investments was potentially affected by changes in actual market prices. As at June 30, 2019, 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 year ended June 30, 2019 if the fair value of each of the portfolio investments as of that date 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 year ending June 30, 2019 would be as follows:

	(Increase) decrease in net loss	(Increase) decrease in loss per share
<i>(in thousands of USD except loss per share)</i>		
10% increase in fair value of portfolio investments	\$ 77	\$ 0.00
10% decrease in fair value of portfolio investments	\$ (77)	\$ 0.00

Commodity risk

Management has determined the effect on the results of operations of the Corporation for the year ended June 30, 2019 if the fair value of each of the open cash contracts as of that date 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.

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The potential effects on the results of operations for the year ending June 30, 2019 would be as follows:

<i>(in thousands of USD except loss per share)</i>	(Increase) decrease in net loss	(Increase) decrease in loss per share
5% increase in bid/ask prices of commodities	\$ 551	\$ 0.02
5% decrease in bid/ask prices of commodities	\$ (551)	\$ (0.02)

Interest rate risk

As at June 30, 2019, Ceres had no long or short portfolio positions in any interest-bearing investment securities.

As at June 30, 2019, 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 June 30, 2019, 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 10 (Bank Indebtedness), as at June 30, 2019, the Corporation's Credit Facility (as defined herein) bears interest at an annual rate of overnight LIBOR plus 3.375%. As at June 30, 2019, 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 June 30, 2019, the Corporation's term loan (note 11) bears interest at an annual rate of one-month LIBOR plus 5.25%. As at June 30, 2019, 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.

On that basis, the potential effects on the results of operations for the year ending June 30, 2019 would be as follows:

<i>(in thousands of USD except loss per share)</i>	Increase in net loss	Increase in loss per share
<u>Revolving credit facility</u>		
25 bps increase in annual interest rate	\$ 86	\$ 0.00
<u>Term loan</u>		
25 bps increase in annual interest rate	\$ 41	\$ 0.00

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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 financial instruments. As at June 30, 2019, 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 determined that \$6 thousand was deemed uncollectable and subsequently written off. As at June 30, 2019, the allowance for doubtful accounts was \$57 thousand. Total bad debt expense recorded during the year ended June 30, 2019 was \$20 thousand, which is classified in "General and Administrative Expenses" in profit or loss.

The Corporation had one customer that represented more than 10% of total revenue for the year ended June 30, 2019, comprising 11.1% of total revenue. For the year ended June 30, 2018, the Corporation had one customer that individually represented more than 10% of total revenue, comprising of 20% of total revenue.

Custody and prime brokerage risk

There are risks involved with dealing with a custodian or broker who settles 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 implications 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.

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Liquidity risk

As at June 30, 2019 and June 30, 2018, the following are the contractual maturities of financial liabilities, excluding interest payments:

June 30, 2019

<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	\$ 33,694	\$ 34,000	\$ 34,000	\$ —	\$ —	\$ —
Accounts payable and accrued liabilities	23,944	23,944	23,944	—	—	—
Unrealized losses on open cash contracts	3,435	3,435	3,435	—	—	—
Long-term debt	19,608	20,000	5,000	5,000	10,000	—
Operating lease obligations	—	3,107	608	582	1,072	845
Capital lease obligation(s)	28	32	8	8	16	—

June 30, 2018

<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	\$ 10,910	\$ 11,000	\$ 11,000	\$ —	\$ —	\$ —
Accounts payable and accrued liabilities	16,574	16,574	16,574	—	—	—
Unrealized losses on open cash contracts	3,323	3,323	3,323	—	—	—
Long-term debt	9,661	10,000	5,000	5,000	—	—
Operating lease obligations	—	1,213	475	388	350	—
Capital lease obligation(s)	45	52	11	10	31	—

Future operational cash flows and assets are expected to be sufficient 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.

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As at June 30, 2019, 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>	Net asset (liability) exposure
Canadian dollars	\$ (1,317)

The following is a summary of the effect on Ceres' profit or loss for the year ended June 30, 2019 if the USD had become 5% stronger or weaker against the CAD as at June 30, 2019, with all other variables remaining constant including the number of shares then issued and outstanding, related to monetary assets and liabilities denominated in CAD:

<i>(in thousands of USD except loss per share)</i>	Increase (decrease) in net loss	Increase (decrease) in loss per share
CAD 5% Stronger	\$ 53	\$ 0.00
CAD 5% Weaker	\$ (48)	\$ 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 profit or loss for the reporting period.

Other financial instruments

The carrying values of accounts receivable, bank indebtedness, and account payable and accrued liabilities approximate their fair values as at June 30, 2019 due to the short-term nature of these instruments. The carrying value of long-term debt approximates fair value as at June 30, 2019 based on current market rates for similar instruments.

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(9) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised the following at June 30, 2019 and June 30, 2018:

June 30, 2019		Buildings Silos & Elevators	Machinery & equipment	Office equipment & other assets	Construction in progress	Totals
<i>(in thousands of USD)</i>	Land					
Cost						
June 30, 2018	\$ 20,833	\$ 70,682	\$ 24,197	\$ 3,563	\$ 347	\$ 119,622
Additions	—	—	—	—	2,381	2,381
Placed in service	—	1,751	334	619	(2,704)	—
Disposals	—	—	—	(17)	—	(17)
Currency translation	47	106	61	6	—	220
June 30, 2019	<u>20,880</u>	<u>72,539</u>	<u>24,592</u>	<u>4,171</u>	<u>24</u>	<u>122,206</u>
Accumulated depreciation						
June 30, 2018	—	(9,799)	(4,040)	(1,758)	—	(15,597)
Depreciation	—	(2,677)	(1,581)	(309)	—	(4,567)
Disposals	—	—	—	7	—	7
Currency translation	—	(21)	(24)	—	—	(45)
June 30, 2019	<u>—</u>	<u>(12,497)</u>	<u>(5,645)</u>	<u>(2,060)</u>	<u>—</u>	<u>(20,202)</u>
Carrying amount June 30, 2019	<u>\$ 20,880</u>	<u>\$ 60,042</u>	<u>\$ 18,947</u>	<u>\$ 2,111</u>	<u>\$ 24</u>	<u>\$ 102,004</u>
June 30, 2018						
<i>(in thousands of USD)</i>	Land	Buildings Silos & Elevators	Machinery & equipment	Office equipment & other assets	Construction in progress	Totals
Cost						
June 30, 2017	\$ 21,936	\$ 82,179	\$ 24,424	\$ 3,633	\$ 358	\$ 132,530
Additions	—	—	—	—	2,260	2,260
Placed in service	11	1,165	1,017	16	(2,209)	—
Disposals	(780)	(11,893)	(883)	(39)	(62)	(13,657)
Impairments	(91)	(251)	(37)	(17)	—	(396)
Currency translation	(243)	(518)	(324)	(30)	—	(1,115)
June 30, 2018	<u>20,833</u>	<u>70,682</u>	<u>24,197</u>	<u>3,563</u>	<u>347</u>	<u>119,622</u>
Accumulated depreciation						
June 30, 2017	—	(11,009)	(2,729)	(1,518)	—	(15,256)
Depreciation	—	(2,962)	(1,684)	(303)	—	(4,949)
Disposals	—	3,987	273	37	—	4,297
Impairments	—	118	25	16	—	159
Currency translation	—	67	75	10	—	152
June 30, 2018	<u>—</u>	<u>(9,799)</u>	<u>(4,040)</u>	<u>(1,758)</u>	<u>—</u>	<u>(15,597)</u>
Carrying amount June 30, 2018	<u>\$ 20,833</u>	<u>\$ 60,883</u>	<u>\$ 20,157</u>	<u>\$ 1,805</u>	<u>\$ 347</u>	<u>\$ 104,025</u>

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There were no property, plant and equipment additions that have been accrued but not yet paid as at June 30, 2019 compared to \$3.0 million as at June 30, 2018.

Impairments

During the year ended June 30, 2019, there were no asset impairments recorded.

During the year ended June 30, 2018, the Corporation recorded an impairment related to its Calumet facility (Minneapolis, Minnesota), as the operations had ceased, and the cash flows associated with this specific asset could no longer support its carrying value. During the year ended June 30, 2018, Ceres recorded a loss of \$236 thousand on the impairment of the Calumet facility.

Disposals

On January 10, 2019, Ceres closed on the sale of its Calumet facility in Minneapolis, MN. The Corporation recognized a gain of \$696 thousand classified within profit or loss as “Gain (loss) on property, plant and equipment”. There were no other disposals during the year ended June 30, 2019.

During the year ended June 30, 2018, the Corporation closed on the sale of the Buffalo and Duluth Lakeport storage facilities. The realized gain on the sale of its Buffalo storage facility of \$103 thousand and a loss of \$166 thousand on the sale of Duluth Lakeport, for an aggregate loss of \$63 thousand, are reported within profit and loss for the year ended June 30, 2018.

(10) BANK INDEBTEDNESS

On February 14, 2019, the Corporation entered into a fourth amended and restated credit agreement led by Macquarie Bank Limited, as administrative agent on behalf of a syndicate group of lenders which includes Bank of Montreal and Cooperatieve Rabo Bank U.A. (the “**New Credit Facility**”). The New Credit Facility increases the amount of the revolving facility available to Ceres from \$67.5 million to \$80 million, with the potential to access an accordion feature that would provide an additional \$20 million. The revolving facility matures on February 13, 2020. The interest rate under the New Credit Facility reflects a reduction of 50 basis points from Ceres’ prior revolving facility and borrowings bear an annual interest rate of 3.375% plus overnight LIBOR, and interest is calculated and paid on a monthly basis. The New Credit Facility is subject to borrowing base limitations. Amounts under the New Credit Facility that remain undrawn are not subject to a commitment fee. The New Credit Facility has certain covenants pertaining to the accounts of the Corporation. As at and for the year ended June 30, 2019, the Corporation was in compliance with all covenants.

As at June 30, 2019 and June 30, 2018, the Corporation had \$16.0 million and \$26.2 million in availability, respectively, on its revolving credit facility.

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As at June 30, 2019 and June 30, 2018, the carrying amount of bank indebtedness is summarized as follows:

<i>(in thousands of USD)</i>	June 30, 2019	June 30, 2018
Revolving credit facility	\$ 34,000	\$ 11,000
Unamortized financing costs	(306)	(90)
Bank indebtedness	\$ 33,694	\$ 10,910

(11) TERM LOAN

On November 15, 2018, the Corporation entered into a \$20.0 million term loan agreement with Bixby Bridge Fund IV, LLC (“**Bixby Loan**”), subsequently amended on June 26, 2019. A portion of the proceeds of the Bixby Loan were used to repay all amounts outstanding under the Macquarie Term Loan. The loan is secured primarily by mortgages on Ceres’ elevator facilities, including; one in Northgate, SK, one in Duluth, MN and two in Minneapolis, MN. This loan is for a term of 4 years with annual principal payments of \$5.0 million due November 15, 2019; November 15, 2020; November 15, 2021; and November 15, 2022. Pursuant to the agreed upon conditions of the Bixby Loan, Ceres may, at its discretion, repay the balance of the loan at any time subject to typical notice requirements. This loan has an annual interest rate of 5.25% plus one-month LIBOR.

Prior to the Bixby Loan, the Corporation had a senior secured term loan facility agreement with Macquarie Bank (“Macquarie Term Loan”) which was entered into on December 30, 2014 and subsequently amended. The Macquarie Term Loan had an interest rate of one-month LIBOR plus 5.25%. As at June 30, 2018, the outstanding principal balance on the Macquarie Term Loan was \$10.0 million with a balance of unamortized financing costs of \$0.3 million. During fiscal 2019, the Corporation repaid all amounts under the Macquarie Term Loan.

In connection with the origination of the Bixby Loan, the Corporation paid transaction costs relating to the loan closure in the amount of \$0.4 million, which included legal fees and other related borrowing costs. Transaction costs directly attributable to the issuance of the 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>	June 30, 2019	June 30, 2018
Current portion of term loan	\$ 5,000	\$ 5,000
Less current portion of unamortized financing costs	(106)	—
Current portion of term loan	4,894	5,000
Long-term portion of term loan	15,000	5,000
Less long-term portion of unamortized financing costs	(286)	(339)
Total term loan	\$ 14,714	\$ 4,661

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

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(12) 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 years ended June 30, 2019 and 2018:

<i>(in thousands of USD)</i>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Realized and unrealized gains (losses) on foreign exchange	\$ (45)	\$ 99
Realized and unrealized gains (losses) on currency hedging transactions	—	30
Revaluation of portfolio investments	(1,885)	(486)
Accretion of contingent consideration	(138)	—
Finance income (loss)	<u>\$ (2,068)</u>	<u>\$ (357)</u>

(13) INTEREST EXPENSE

The following table presents interest expense for the years ended June 30, 2019 and 2018:

<i>(in thousands of USD)</i>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Interest on revolving credit facility	\$ (2,448)	\$ (1,785)
Interest on repurchase obligations	(152)	(37)
Interest on term loans	(1,256)	(892)
Interest on other financing obligations	(15)	(8)
Amortization of financing costs paid	(681)	(450)
Interest expense	<u>\$ (4,552)</u>	<u>\$ (3,172)</u>

(14) EQUITY

(a) Authorized

Unlimited number of voting, participating Common shares, without par value.

(b) Stock Option and Appreciation Rights

On March 10, 2014, the Board approved the Ceres Global Ag Corp. Stock Option Plan (the “Options Plan”). The Options Plan is available to certain officers, key employees and consultants of the Corporation and its subsidiaries. The purpose of the Options Plan is to attract, retain and motivate these parties by providing them with the opportunity, through options, to acquire a proprietary interest in the Corporation and to benefit from its growth.

The Options Plan is administered by the Board, which determines (among other things) those officers, key employees and consultants who may be granted awards as Participants and the terms and conditions of any award to any such Participant. The Exercise Price of the options is fixed by the Board and may be no less than 100% of the Market Price on the effective date of the award of the options, which may be granted for a term not exceeding ten (10) years. The maximum number of common shares reserved for issuance upon the exercise of options cannot exceed 10% of the total number of common shares issued and outstanding less the number of common shares reserved for issuance under the Corporation’s Directors Deferred Share Unit

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Plan (note 15). Restrictions exist as to the number of options that may be granted to Insiders within any one-year period, and as to the number of, and the aggregate fair market value of, the common shares underlying the options that may be granted to any one Participant.

The Options Plan also provides for the Board to grant Stock Appreciation Rights (“SARs”) to certain officers, key employees and consultants of the Corporation. Stand-Alone SARs granted under the Plan become vested at such times, in such installments and subject to the terms and conditions of the Options Plan (including satisfaction of Performance Criteria and/or continued employment) as may be determined by the Board. The Base Price for each common share subject to a Stand-Alone SAR may not be less than 100% of the Market Price of a common share on the Effective Date of the award of such Stand-Alone SAR. Tandem SARs may be granted at or after the Effective Date of the related award of options, and each Tandem SAR is subject to the same terms and conditions and denominated in the same currency as the option to which it relates and the additional terms and conditions under the Options Plan. Tandem SARs may be exercised only if and to the extent the options related thereto are then vested and exercisable. On exercise of a Tandem SAR, the related option will be cancelled, and the Participant will be entitled to an amount in settlement of such Tandem SAR calculated and, in such form, as provided by the Options Plan.

On May 10, 2018 the Board of Directors of the Corporation, authorized an amendment to all issued and outstanding Options to add a Tandem SAR grant and revised vesting schedule, resulting in an accrued liability and corresponding compensation cost of \$99 thousand and a revaluation gain of \$24 thousand.

During the year ended June 30, 2019, Ceres granted stock options (“options”), which include Tandem SARs, 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 the fair market value of the common shares. As at June 30, 2019, the outstanding Tandem SARs are as follows:

	Number of Options	Weighted- average exercise price (CAD)	Weighted- average remaining contractual term (years)
Outstanding as at June 30, 2017	1,091,879	\$ 6.00	3.91
Granted	340,500	5.84	4.23
Exercised	—	—	
Expired/forfeited	(59,042)	6.01	
Outstanding as at June 30, 2018	1,373,337	5.96	3.17
Granted	750,000	3.68	4.26
Exercised	(27,500)	4.49	
Expired/forfeited	(265,450)	5.16	
Outstanding as at June 30, 2019	1,830,387	\$ 5.17	2.90

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 2.39%; expected volatility of 20.7%; dividend yield of nil; an average expected option life of 3.25 years; and average exercise price of CAD \$3.68. The weighted average grant date fair value of the Options granted during the year ended June 30, 2019, is CAD \$0.67 and CAD \$0.42 for the year ended June 30, 2018. As at June 30, 2019, Options had exercise prices ranging from CAD \$3.68 to CAD \$6.75 and CAD \$5.84 to CAD \$6.75 as at June 30, 2018.

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The total Option compensation cost included in general and administrative expenses for the year ended June 30, 2019, amounted to \$195 thousand and \$264 thousand for the year ended June 30, 2018, with the non-cash expense being accrued and classified within contributed surplus in the Consolidated Balance Sheet.

(c) *Issued and outstanding as at June 30, 2019 and June 30, 2018*

The following is a summary of the changes in the Common shares for the year ended June 30, 2019 and year ended June 30, 2018:

	<u>Common shares</u>	
	<u>Number of Shares</u>	<u>Amount</u> <i>(thousands of USD)</i>
Balances, June 30, 2017	27,909,596	\$ 203,263
Redemption of deferred share units	22,326	82
Directors' remuneration	3,069	13
Balances, June 30, 2018	27,934,991	203,358
Redemption of deferred share units	—	—
Balances, June 30, 2019	<u>27,934,991</u>	<u>\$ 203,358</u>

As at June 30, 2019 and June 30, 2018, directors and officers of the Corporation beneficially own, directly or indirectly, or exercise control or direction over 44.0% and 43.7%, respectively, of the outstanding Common shares of the Corporation.

(15) DEFERRED SHARE UNIT PLAN

Effective September 29, 2016, the Board amended the Directors' Deferred Share Unit Plan to (i) authorize the Board, in its sole discretion, to issue Common Shares to directors in lieu of all or a portion of the annual cash remuneration payable to eligible directors in respect of services provided by such eligible directors to the Corporation, (ii) increase the aggregate number of Common Shares issuable under the plan from 450,000 to 600,000 Common Shares and (iii) rename the plan the Directors' Share and Deferred Share Unit Plan.

Effective March 10, 2014, Ceres has a Directors' Deferred Share Unit Plan, whereby deferred share units ("DSU") are issued to Eligible Directors, in lieu of cash, for a portion of Directors' fees otherwise payable to Directors. The Fair Market Value of the DSUs on the date such units are calculated and issued represents the volume-weighted average trading price of Ceres' common shares for the five trading days immediately preceding the date of issuance of the DSUs. Each DSU entitles the director to receive payment after the end of the director's term in the form of common shares of the Corporation. Under the plan, the aggregate number of common shares issuable by Ceres under this Plan was limited to 450,000 and subsequently amended to 600,000 common shares. Certain insider restrictions and annual dollar limits per Eligible Director exist. Dividends, if any, otherwise payable on the common shares represented by the DSUs are converted into additional DSUs based on the Fair Market Value as of the date on which any such dividends would be paid. The Plan also provides for the Board to award additional DSUs (referred to in the Plan agreement as "Matching DSUs") to an Eligible Director who has elected to receive DSUs pertaining to his/her Annual Cash Remuneration amount (as defined by the Plan).

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The Corporation intends to settle all DSUs with shares through the issuance of treasury shares. Compensation expense is included as part of Directors' fees classified with general and administrative expenses and is recognized in the accounts as and when services are rendered to the Corporation.

The following table summarizes the information related to deferred share units ("DSUs") outstanding:

	Number of DSUs	Amount <i>(thousands of USD)</i>
Outstanding as at June 30, 2017	183,585	\$ 771
Issuance of Deferred Share Units	91,244	323
Redemption of Deferred Share Units	(22,326)	(82)
Fair value adjustment of Deferred Share Units	—	(211)
Outstanding as at June 30, 2018	252,503	801
Issuance of Deferred Share Units	104,527	318
Reclassification of Deferred Share Units	—	268
Outstanding as at June 30, 2019	357,030	\$ 1,387

(16) RELATED PARTY TRANSACTIONS

Key management personnel

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:

<i>(in thousands of USD)</i>	Twelve months ended	
	June 30, 2019	June 30, 2018
Salary and short-term employee/director benefits	\$ 1,551	\$ 1,090
Share-based compensation	446	233
	\$ 1,997	\$ 1,323

Savage Riverport, LLC

Ceres routinely transacts business directly with Savage Riverport, LLC. Such transactions are in the ordinary course of business and include storage and elevation fees for grain storage, as well as management fees. Related party revenue of \$80 thousand is included in total revenue for the fiscal year 2019 compared to related party revenue of \$13 thousand in fiscal year 2018. Related party expenses recorded in cost of sales are \$1.3 million for the fiscal year 2019 and \$240 thousand for fiscal year 2018. As at June 30, 2019, the accounts receivable, due from Savage Riverport, LLC totaled \$134 thousand (\$29 thousand in 2018) and accounts payable, due to Savage Riverport, LLC totaled \$51 thousand (\$36 thousand in 2018).

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(17) BUSINESS COMBINATION

On July 11, 2018, the Company acquired 100% of the equity of Natures' Organic Grist, LLC ("NOG"), a supplier of organic grains and ancient grains (including emmer and einkorn), milled flours, and feed products, for consideration as follows:

- Cash consideration \$2.8 million paid at closing, with an additional payment of \$0.5 million paid one month following the close for working capital acquired; and
- A performance based earn-out of up to \$3.2 million based on total NOG performance over a three-year period following closing which was fair valued at \$1.3 million using a discounted cash flow model and a probability factor of 50% for each of the three years of the contingent payments and a 10% discount rate. This model is based on forecasted gross margin based on the information available as of the reporting date. The present value of the performance based earn-out is revalued each period. Accretion of contingent consideration recorded in finance income is \$0.2 million for the year ended June 30, 2019, bringing the current contingent consideration to \$1.5 million.

<i>(in thousands of USD)</i>	July 11, 2018
Cash consideration	\$ 2,800
Working capital	475
Fair value of contingent consideration	<u>1,330</u>
Total consideration	<u>\$ 4,605</u>

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The acquisition of NOG was accounted for as a business combination. The purchase price has been allocated to the assets acquired and liabilities assumed based on their fair values as follows:

<i>(In thousands of USD)</i>	Amounts Recognized as of the Acquisition Date	Measurement Period Adjustments (a)	Amounts Recognized as of June 30, 2019
Cash	\$ 936	\$ —	\$ 936
Accounts receivable	274	—	274
Inventory	511	—	511
Intangible assets	3,968	(3,968)	—
Open grain contracts	—	731	731
Organic supply contracts	—	3,237	3,237
Total assets acquired	5,689	—	5,689
Accounts payable and accrued liabilities	1,084	—	1,084
Total liabilities assumed	1,084	—	1,084
Net assets acquired	\$ 4,605	\$ —	\$ 4,605

- (a) During the measurement period, the Corporation recorded certain adjustments to the purchase price allocation including the identification of open grain contracts and organic supply contracts.

The grain contracts are amortized as bushels are delivered on those contracts. The organic supply contract is amortized on a straight-line basis over the life of the contract, which ended in June 2019. The amortization expense of the intangible assets is as follows:

<i>(in thousands of USD)</i>	Amount
Intangible assets at July 11, 2018	\$ 3,968
Amortization grain contracts	(731)
Amortization supply contract	(3,237)
Net intangible assets at June 30, 2019	\$ —

(18) SEGMENT REPORTING

As at June 30, 2019, the Company had three reportable segments: Grain, Supply Chain Services, and Corporate. As at June 30, 2018, the Company had two operating segments: Grain and Supply Chain Services. The Corporation's Grain segment is engaged in grain procurement and merchandising of specialty grains and oilseeds such as oats, barley, rye, hard red spring wheat, durum wheat, canola, and pulses. The Supply Chain Services segment utilizes the Corporation's facilities to provide logistics services, storage, and transloading for commodities and industrial products.

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During the previous fiscal year, the Corporation had one reportable segment and two operating segments. Therefore, the information below restates the financial information for twelve months ended June 30, 2018 in the three new reporting segments. Management reporting comprises analysis of revenue and gross profit within two distinct operating divisions. Corporate oversees and administers the operating divisions. Items included in the Corporate segment include but are not limited to the following: interest and amortization of prepaid loan fees related to the Term Loan, Scoular legal settlement (note 20) expense, administrative personnel salaries, business development expenses, share in net income (loss) of associates, gain (loss) on sale of property plant and equipment, revaluation of portfolio investments, and gain (loss) on foreign exchange. The chief operating decision maker focuses on revenues and costs by operating segment, but manages assets and liabilities on a global basis.

The following table presents information about reported segment profit or loss from the Statement of Comprehensive Income (Loss) for the twelve months ended June 30, 2019:

<i>(In thousands of USD)</i>	Grain	Supply- Chain Services	Corporate	Total
Revenues	\$ 430,095	\$ 8,301	\$ —	\$ 438,396
Cost of sales	<u>(418,015)</u>	<u>(6,061)</u>	<u>—</u>	<u>(424,076)</u>
Gross profit	12,080	2,240	—	14,320
General and administrative expenses	<u>(5,972)</u>	<u>(415)</u>	<u>(6,644)</u>	<u>(13,031)</u>
Income (loss) from operations	6,108	1,825	(6,644)	1,289
Finance income (loss)	(138)	—	(1,930)	(2,068)
Revaluation of stock appreciation right liability	—	—	379	379
Amortization of intangible asset	(3,968)	—	—	(3,968)
Interest expense	(2,877)	—	(1,675)	(4,552)
Legal settlement	—	—	(8,228)	(8,228)
Gain (loss) on property, plant and equipment	<u>—</u>	<u>—</u>	<u>696</u>	<u>696</u>
Income (loss) before income taxes	(875)	1,825	(17,402)	(16,452)
Income tax (expense) recovered	—	—	4	4
Share of net income (loss) of associates	<u>—</u>	<u>—</u>	<u>(423)</u>	<u>(423)</u>
Net income (loss)	<u>\$ (875)</u>	<u>\$ 1,825</u>	<u>\$ (17,821)</u>	<u>\$ (16,871)</u>

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The following table presents information about reported segment profit or loss from the Statement of Comprehensive Income (Loss) for the twelve months ended June 30, 2018:

<i>(In thousands of USD)</i>	Grain	Supply- Chain Services	Corporate	Total
Revenues	\$ 399,848	\$ 11,274	\$ —	\$ 411,122
Cost of sales	(394,211)	(5,241)	—	(399,452)
Gross profit	5,637	6,033	—	11,670
General and administrative expenses	(7,606)	(1,795)	(2,492)	(11,893)
Income (loss) from operations	(1,969)	4,238	(2,492)	(223)
Finance income (loss)	—	—	(357)	(357)
Interest expense	(2,273)	—	(899)	(3,172)
Gain (loss) on equity investment	3,675	—	—	3,675
Gain (loss) on property, plant and equipment	—	—	(299)	(299)
Income (loss) before income taxes	(567)	4,238	(4,047)	(376)
Income tax (expense) recovered	—	—	38	38
Share of net income (loss) of associates	—	—	(218)	(218)
Net income (loss)	<u>\$ (567)</u>	<u>\$ 4,238</u>	<u>\$ (4,227)</u>	<u>\$ (556)</u>

(19) INCOME TAXES

(a) *Reconciliation of statutory tax provision to the effective tax provision*

As the Corporation operates in several tax jurisdictions, its income is subject to taxation at various rates.

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The provision for income taxes differs from the amount that would have resulted from applying the Canadian statutory income tax rates to income before income taxes for the following reasons:

(In thousands of USD)

	For the years ended	
	June 30, 2019	June 30, 2018
Income (loss) before income and taxes and share of net income (loss) of associates:		
Canada	\$ (7,928)	\$ (3,352)
Mexico	12	-
United States of America	(8,536)	2,976
	\$ (16,452)	\$ (376)
Combined statutory Canadian federal and Ontario corporate income tax rate.	26.5%	26.5%
Provisions for income taxes recoverable using statutory rate	(4,360)	(100)
Adjusted for the income tax effect of:		
Difference in tax rates applicable to subsidiaries	(171)	157
U.S. state taxes, net of U.S. federal benefit	(325)	18
Non-deductible portion of unrealized losses (non-taxable portion of unrealized gains) on investments	(282)	(45)
Changes in unrecognized temporary difference on deferred income tax assets, net of deferred tax liabilities	5,129	(36)
Foreign exchange and other differences	5	(32)
	4,356	62
Income tax expense (recovered)	\$ (4)	\$ (38)

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The components of the provision for income taxes for the years ended June 30, 2019 and 2018 are as follows:

Canada	<u>2019</u>	<u>2018</u>
Current	\$ -	\$ -
Deferred	-	-
	-	-
Mexico	<u>2019</u>	<u>2018</u>
Current	-	\$ -
Deferred	(2)	-
	(2)	-
United States of America - Federal		
Current	-	113
Deferred	-	(172)
	-	(59)
United States of America - State		
Current	-	21
Deferred	(2)	-
	(2)	21
Income tax expense (recovered)	\$ (4)	\$ (38)

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(b) Deferred income tax asset

The tax effects of temporary differences that give rise to significant elements of the net deferred income tax asset are as follows:

(In thousands of USD)

	For the years ended	
	June 30, 2019	June 30, 2018
Deferred tax assets:		
Non-capital and net operating losses carried-forward	\$ 32,661	\$ 29,191
Amortization of grain and supply contracts	902	-
Interest expense limitation	880	-
Allowable capital losses carried forward	784	960
Deductible portion of unrealized depreciation of associates	732	730
Share issuance costs	2	89
Other temporary deductible differences, net of temporary taxable differences	861	533
	<u>36,822</u>	<u>31,503</u>
Deferred tax liabilities:		
Property, plant and equipment	(9,467)	(9,003)
Taxable portion of unrealized depreciation of associates	(1,172)	(1,323)
Other temporary taxable differences, net of temporary deductible differences	-	-
	<u>(10,639)</u>	<u>(10,326)</u>
Unrecognized deferred tax assets	<u>(26,183)</u>	<u>(21,005)</u>
Non-current deferred tax asset, net	<u>\$ -</u>	<u>\$ 172</u>

(c) Tax losses carried forward

(i) Operations in Canada

As at June 30, 2019, the Corporation has accumulated non-capital losses in the amount of CAD \$76.9 million relating to its operations in Canada.

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The non-capital losses are being carried forward and, unless utilized, will expire in the following taxation years:

(in thousands of CAD)

<u>Year of expiry</u>	<u>Amount in CAD</u>
2031	\$ 401
2032	7,335
2033	6,549
2034	13,586
2035	8,198
2036	10,777
2037	7,008
2038	12,070
2039	11,028
	<u>\$ 76,952</u>

As at June 30, 2019, Ceres has accumulated capital losses totaling CAD \$7.75 million, which are available indefinitely to be applied against capital gains in future taxation years. The potential income tax benefit of the non-capital and capital losses has not been recognized in the consolidated financial statements.

(ii) Operations in the United States of America

As at June 30, 2019, the Corporation has accumulated net operating losses in the amounts noted below in USD, for federal and state income tax purposes. These net operating losses are being carried forward and, unless utilized, will expire in the following taxation years:

(in thousands of USD)

<u>Year of expiry</u>	<u>Federal</u>	<u>Minnesota</u>	<u>New York</u>	<u>North Dakota</u>	<u>Wisconsin</u>
2025	\$ -	\$ 3,387	\$ -	\$ -	\$ -
2026	-	1,724	-	-	-
2027	-	6,335	-	-	1,208
2028	-	9,210	-	-	1,764
2029	-	-	-	-	-
2030	5,472	9,847	-	400	-
2031	3,686	2,188	-	201	-
2032	8,570	2,072	-	124	-
2033	12,773	-	-	68	-
2034	-	772	-	-	-
2035	26,591	-	617	121	311
2036	5,310	-	6	91	111
2037	3,618	-	-	40	41
2038	-	-	-	-	-
2039	840	-	-	31	38
	<u>\$ 66,860</u>	<u>\$ 35,535</u>	<u>\$ 623</u>	<u>\$ 1,076</u>	<u>\$ 3,473</u>

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(20) LEGAL

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 June 30, 2019 and June 30, 2018, 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 Logistics Centre (NLC). Scoular filed a breach of contract claim for injunctive relief and unspecified damages. On October 5, 2018, the Corporation settled the lawsuit for \$11.3 million, of which \$3.1 million was previously accrued, resulting in the recognition of an \$8.2 million expense recorded in profit or loss for the year ended June 30, 2019. As at June 30, 2019, the \$11.3 million Scoular settlement has been paid in full.

(21) SUBSEQUENT EVENTS

On July 1, 2019, the Corporation formed a joint venture with Steel Reef Infrastructure Corp. to transload hydrocarbon products at the Corporations Northgate facility. The Corporation owns 50% of the joint venture.

On August 16, 2019, the Corporation acquired 100% of the equity of Delmar Commodities, Ltd., a Canadian agricultural processing and supply chain company for a purchase price of CAD \$15.3 million exclusive of closing costs. The purchase price was paid in cash using a portion of the net proceeds from the New Credit Facility. In addition, the Corporation assumed \$7.6 million in debt. The Corporation amended its term loan with Bixby and increased the amount borrowed from \$20 million to \$35 million. The new amended agreement requires a payoff of the loan of \$5 million in November 2020 and an additional \$5 million payoff in November 2021. The remaining \$25 million is due upon maturity in 2022. The Corporation acquired Delmar in order to increase grain origination assets as well as diversify products. As of the issuance date the Corporation has not completed the initial accounting for the business combination and is unable to disclose certain information.