



# MOVING FORWARD

2018 ANNUAL REPORT



## MOVING FORWARD

Over the past year, Ceres continued to think long-term. We committed to our strategy and focused on growing our two core businesses—the Grain Division and the Supply Chain Services Division. We made significant investments in our integrated network of assets and facilities, including the acquisition of Nature's Organic Grist, our first foray into organic grains. Also in our Grain Division, we entered into a joint venture to create Savage Riverport, LLC. At the Northgate Logistics Center, we continued to work towards developing the Northgate Terminal into a world-class logistics center.

18

COMMODITY PRODUCT LINES

49%

INCREASE IN GROSS PROFIT

## ABOUT CERES GLOBAL AG

Through our network of commodity logistics centers and team of industry experts, Ceres procures and provides North American agricultural commodities and value-added products, industrial products, fertilizer, energy products and reliable supply chain logistics services to customers worldwide.

Ceres operates six locations, Duluth, MN; Minneapolis, MN; Shakopee, MN; Northgate, Saskatchewan; and Port Colborne, Ontario, and is headquartered in Minneapolis, MN. Our facilities throughout North America have an aggregate grain and oilseed storage capacity of approximately 29.7 million bushels.

Ceres also has a 50% interest in Savage Riverport LLC, a joint venture with Consolidated Grain and Barge Co. ("CGB"), a 25% interest in Stewart Southern Railway Inc., a short-line railway located in southeast Saskatchewan with a range of 130 kilometers, and a 17% interest in Canterra Seed Holdings Ltd, a Canadian-based seed development company.

29.7 M

BUSHEL STORAGE CAPACITY

14

SUPPLY CHAIN SERVICES SUPPLIED

# NORTHGATE LOGISTICS CENTER

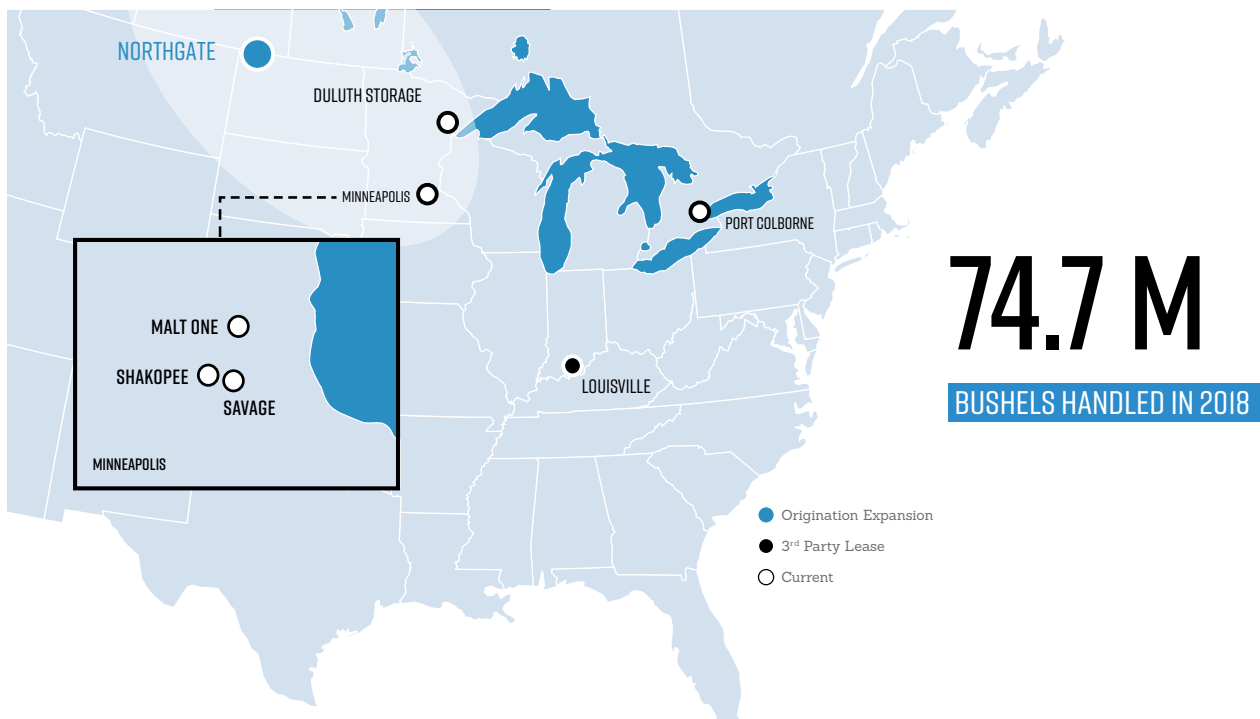
Ceres' Northgate Terminal is positioned to become one of North America's most trusted and valued logistics centers for agricultural commodities and other value-added products, industrial products, fertilizer and energy products.

Northgate's facilities sit on 1,300 acres in southeastern Saskatchewan, has 2.7M bushel capacity for agricultural products, 26,000 ton storage capacity for fertilizer and is connected to BNSF's 32,000 mile rail network.



## SPOTLIGHT ON THE GRAIN DIVISION

Ceres connects North American farmers with the global market through its services and facilities located in Minnesota, Saskatchewan and Ontario. We have grown our platform through strategic partnerships and acquisitions to become a preferred operator and supplier of agricultural products and logistics.



# CHAIRMAN'S MESSAGE

Fiscal year 2018 was a year of change and continual improvement at Ceres. Although we have considerable distance to go to meet our long-term financial targets, this past year we put a good foundation in place to achieve improved financial results. We added and upgraded talent, continued to right-size our asset footprint, expanded marketing outlets and relationships with key customers, and added new product lines in both the ag and non-ag market sectors. We entered fiscal-year 2018 committed to improving our business model by focusing on more attractive trade flows and monetizing our greenfield investment in Northgate. The impact of these moves resulted in lowered costs, improved efficiency, increased consistency of revenues, and a more stable business from which Ceres can pursue its long-term growth strategy.

Key achievements during fiscal-year 2018 included:

- Improved operating financial results and health of the company: improved the bottom line by over \$13 million, paid down \$5 million in long-term debt and lowered annual interest costs by over \$700 thousand
- Increased specialty grain volumes and established a footprint in organic grains with the acquisition of Nature's Organic Grist, a supplier of organic and ancient grains, milled flours and feed products
- Increased efficiencies and lowered costs per unit handled by divesting some elevators and creating Savage Riverport, LLC as a joint venture between Ceres and Consolidated Grain and Barge Co.
- Accelerated development of the Northgate Terminal into a world-class logistics center capable of handling multiple commodities and significantly increasing natural gas liquids (NGLs), fertilizer and industrial product volumes
- Continued to add talent to the company; strengthened the senior management team with the addition of Kyle Egbert as Vice President and Chief Financial Officer, Glen Goldman as Vice President, General Counsel and Corporate Secretary, Jeremy Nielsen as General Manager at Northgate, and many other key positions across the company

In terms of our Core Agricultural Products business, we focused on customers that are more receptive to our value proposition, which emphasizes quality and reliability versus simply price. Meanwhile, the subsequent addition of Nature's Organic Grist added new specialty products to our portfolio. Diversification of products (and assets) has helped to reduce risk and strengthen our position across the supply chain. Also, the joint venture between Ceres and Consolidated Grain and Barge Co. has allowed us to maintain strategic access to the upper Mississippi River region, including barges, rail and truck logistics, while lowering operating costs and freeing up capital that we are using to grow other areas of our business.

In our supply chain services business, we continued to focus on developing the full capacity of our Northgate facility in Saskatchewan. We incrementally increased volumes in all major product categories (NGLs, fertilizer, industrial products and non-core ag products), we added certifications that are critical for support from government and help market where we offer (Customers Trade Partnership Against Terrorism certification and BNSF Railway Site Certification Status), and we made progress with potential new partners in the energy and industrial product spaces by agreeing to explore long-term opportunities in greater depth.

As we enter fiscal 2019, we remain committed to the growth of our two core business models: Core Agricultural Products (North American cereal grains and pulses), and Supply Chain Services (NGLs, fertilizer, industrial products and non-core ag products). Specifically, we are committed to the following in fiscal-year 2019:

- Maintain the positive trajectory of improved financial results
- Continue to deepen relationships and development with key customers
- Maximize current volumes and analyze the opportunity to structurally connect Ceres at Northgate with the oil and gas industry in Canada
- Add more product lines to the supply chain services business at Northgate
- Add grain origination assets in Western Canada and the U.S. Upper Midwest
- Continue to add talent to the organization

Finally, with respect to the litigation with Scoular, we enter the proceedings confident that we have a strong case and we look forward to having the case resolved. Resolution is expected sometime in the last quarter of calendar year 2018.

On behalf of the Board, I would like to thank our employees for their hard work and commitment. Throughout the year we have been fortunate to have made high quality additions to our team and are well positioned for improved profitability and accelerated growth. I would also like to thank our Board of Directors for their always thoughtful counsel and advice. Finally, thank you to our shareholders for your continued belief in our company.

Sincerely,

**Douglas E. Speers**  
Chairman of the Board  
Ceres Global Ag Corp.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") dated September 25, 2018 should be read in conjunction with the audited Consolidated Financial Statements for the year ended June 30, 2018 of Ceres Global Ag Corp. ("Ceres", the "Corporation", "we", "our", and "us"), and the Corporation's audited consolidated financial statements for the year ended June 30, 2017 (the "Annual Consolidated Financial Statements"). Additional information about Ceres filed with Canadian securities regulatory authorities, including the quarterly financial statements and MD&A, and annual report and the Annual Information Form, is available online at [www.sedar.com](http://www.sedar.com).

## **Basis of Presentation**

Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise indicated, dollar amounts are expressed in United States dollars ("\$" and "USD") and references to "CAD" are to Canadian dollars.

## **Non-IFRS Financial Measures**

This MD&A contains references to certain financial measures, including some that do not have any standardized meaning prescribed by IFRS. These measures include "EBITDA" (Earnings before interest, income tax, depreciation and amortization), "Return on Shareholders' Equity" and "Adjusted Net Income (Loss)", neither of which have a standardized meaning under IFRS. See "Non-IFRS Financial Measures and Reconciliations."

## **Risks and Forward-Looking Information**

The Corporation's financial and operational performance is potentially affected by a number of factors, including, but not limited to, the factors described in "Key Assumptions & Advisories".

This MD&A contains forward-looking information based on the Corporation's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, including those discussed in this annual MD&A and the Corporation's other disclosure documents, many of which are beyond the Corporation's control. Users of this information are cautioned that actual results may differ materially. See "Key Assumptions and Advisories" for information on material risk factors and assumptions underlying the Corporation's forward-looking information.

### **Who We Are**

Through our network of commodity logistics centers and team of industry experts, Ceres procures and provides North American agricultural commodities and value-added products, industrial products, fertilizer, energy products and reliable supply chain logistics services to customers worldwide.

Ceres operates six locations, Duluth, MN; Minneapolis, MN; Shakopee, MN; Northgate, Saskatchewan; and Port Colborne, Ontario, and is headquartered in Minneapolis, MN. Our facilities throughout North America have an aggregate grain and oilseed storage capacity of approximately 29.7 million bushels after the formation of Savage Riverport, LLC.

Ceres also has a 50% interest in Savage Riverport LLC, a joint venture with Consolidated Grain and Barge Co. ("CGB"), and a 25% interest in Stewart Southern Railway Inc. ("SSR"), a short-line railway located in southeast Saskatchewan with a range of 130 kilometers, and a 17% interest in Canterra Seed Holdings Ltd (Canterra), a Canadian-based seed development company.

### **Grain Division**

The Corporation's grain division is engaged in grain storage, procurement, and merchandising of specialty grains and oilseeds such as oats, barley, rye, hard red spring wheat, durum wheat, canola and pulses through six grain storage and handling facilities in Minnesota, Saskatchewan and Ontario. Two of the grain storage facilities are located at deep-water ports in the Great Lakes allowing access to vessels, and another facility is located on the Minnesota River with capacity to load barges for shipment down the Mississippi River to export terminals in New Orleans, combining to provide Ceres with efficient access to export and import flows of our core grains and oilseeds to global markets. Approximately 24.8 million bushels of the Corporation's facilities are "regular" for delivery for both spring wheat against the Minneapolis Grain Exchange futures contract and oats against the Chicago Board of Trade futures contract. In addition, spring wheat and oats sourced by the Corporation out of Canada are eligible for delivery against respective futures contracts.

The majority of the grain division's current storage space supports grain trading, arbitrage and merchandising opportunities. Management determines which of the Corporation's facilities is to be employed for the storage or throughput of a particular grain shipment based on the source of the grain shipment, the elevator location relative to the end customers, the cost of logistics to transport the grain, and the availability of space in the intended elevator. In addition, the Corporation stores and handles grain for third-party customers.

### **Supply Chain Services**

Ceres' key asset in its supply chain services division is the Northgate Logistics Center. Ceres owns approximately 1,300 acres of land at Northgate, Saskatchewan, where it has constructed a commodities logistics centre designed to utilize two rail loops, each capable of handling unit trains of up to 120 railcars and ladder tracks capable of handling up to 100 rail cars. The Northgate Logistics Center ("Northgate" or the "NLC") is an approximately CAD \$100 million state-of-the-art grain, oil, natural gas liquids and fertilizer terminal and is connected to the Burlington Northern Santa Fe Railway (the "BNSF") with intentions to further build out infrastructure to support handling of other industrial products and equipment.

The Corporation commenced its initial grain operations at Northgate in October 2014 and the elevator was fully operational in May 2016. As part of its grain operations, the Corporation contracts grain and oilseed purchases from Western Canadian producers that are delivered by truck and unloaded at the NLC grain terminal. Ceres has the option of storing the grain on-site, loading it into outbound railcars to end-users, or shipping to the Corporation's other facilities to take advantage of the value and strategic location of its current asset base.

In addition to the grain operations at Northgate, in April 2015, the Corporation entered into an agreement with Elbow River Marketing ("ERM"), a wholly owned subsidiary of Parkland Fuel Corporation, to transload propane at Northgate. This provides a direct link and an added access point for propane to enter the US market.

In November 2015, Ceres entered into an agreement with Koch Fertilizer Canada, ULC for the storage and handling of dry fertilizer products which brings fertilizer shipments to Northgate. At Northgate, Ceres unloads and warehouses fertilizer in a state-of-the art, 26,000-ton fertilizer storage terminal. The fertilizer is loaded out by Ceres into trucks and distributed to Canadian retailers. The fertilizer operation commenced on April 30, 2017.

The Corporation continues to expand products transloaded at the Northgate facility including but not limited to propane, fertilizer, barite, bentonite, solvents, drilling pipe, and magnesium chloride.

## 1. FINANCIAL AND OPERATING SUMMARY

<i>(in thousands of USD except shares and income (loss) per share)</i>	For the year ended	
	June 30, 2018	June 30, 2017
Revenues	411,122	528,478
Gross profit (loss)	11,670	7,841
Income (loss) from operations	(223)	(1,717)
Net income (loss)	(556)	(13,652)
Weighted average common shares outstanding	27,924,308	27,538,615
Income (loss) per share - Basic	\$ (0.02)	\$ (0.50)
Income (loss) per share - Diluted	\$ (0.02)	\$ (0.50)
EBITDA <sup>(1)</sup>	4,369	2,596
As at:		
Total assets	188,001	256,282
Total bank indebtedness, current <sup>(2)</sup>	10,910	56,443
Term debt <sup>(3)</sup>	9,661	14,454
Shareholders' equity	147,497	148,759
Return on shareholders' equity <sup>(1)</sup>	-0.4%	-9.2%

(1) Non-IFRS measure. See "Non-IFRS Financial Measures and Reconciliations" section.

(2) Includes bank indebtedness and outstanding cheques in excess of cash on hand.

(3) Includes current portion of long-term debt.

## HIGHLIGHTS FOR THE YEAR ENDED JUNE 30, 2018

- Successfully formed Savage Riverport, LLC, a joint venture with Consolidated Grain and Barge Co., generating \$8.5 million from the sale of 50% of the Corporation's assets at Savage.
- Gross profit increased \$3.8 million or 49% compared to the prior year due to the increases in storage and rental income and logistics and transloading income.



- Logistics and transloading revenue increased 138% compared to the prior year.
- Storage and rental income increased 25% compared to the prior year.
- EBITDA increased \$1.8 million or 68% compared to the prior year.
- Operating expenses decreased \$1.1 million as a result of increased efficiency due to the sale of the Buffalo and Lakeport, Duluth facilities.
- Cash flow from operations increased \$29.7 million or 303% compared to the prior year.

## For the Year Ended June 30, 2018 and 2017

### Overall Performance

The Corporation's net loss was \$556 thousand for the year ended June 30, 2018, compared to a net loss of \$13.7 million for the year ended June 30, 2017. Gross profit was \$11.7 million for the year ended June 30, 2018, compared to a gross profit of \$7.8 million for the year ending June 30, 2017. Furthermore, loss from operations was \$223 thousand for the year ended June 30, 2018 compared to a \$1.7 million loss from operations for the year ended June 30, 2017.

### Revenues and Gross Profit

The Corporation's revenue is currently generated by its grain and supply chain division. The revenues are predominantly composed of the sale of grain, storage and rental income, and transloading income. Since a significant portion of revenue is generated through the sale of grain, as a commercial commodities merchandizing business, revenues can vary from year-to-year due to fluctuations of agricultural commodity prices. The Corporation has the flexibility to be opportunistic in its decisions to buy, sell or hold inventory based on market conditions such as grain supply, demand, and grain values.

Total revenue decreased by \$117.4 million in the year ended June 30, 2018 compared to the year ended June 30, 2017. The Corporation handled and traded 74.7 million bushels of grain and oilseed sales in fiscal year 2018 compared to 111.1 million bushels for the fiscal year 2017.

The Corporation's grain division is principally involved in an agricultural commodity-based business, in which changes in selling prices generally move in relation to changes in purchase prices. Therefore, increases or decreases in prices of the agricultural commodities that the business deals in will have a relatively equal impact on sales and cost of sales. Accordingly, management believes it is more important to focus on changes in gross profit and bushels handled than on changes in revenue dollars.

The table below represents a summary of the components of gross profit for the year ended June 30, 2018 and 2017:

<i>(in thousands of USD)</i>	For the year ended	
	<b>June 30, 2018</b>	June 30, 2017
Net trading margin	\$ 18,089	\$ 18,391
Storage and rental income	8,032	6,439
Logistics and transloading	3,090	1,298
Operating expenses included in Cost of sales	(12,667)	(13,792)
Depreciation expense included in Cost of sales	(4,874)	(4,495)
Gross profit (loss)	<b>\$ 11,670</b>	<b>\$ 7,841</b>

Gross profit increased by \$3.8 million in the year ended June 30, 2018 compared to the year ended June 30, 2017. The year over year increase in gross profit was driven by an increase in storage and rental income as well as an increase in logistics and transloading income.

#### Net trading margin

Net trading margin decreased by \$300 thousand in the year ended June 30, 2018 compared to the year ended June 30, 2017 due to lower trading volumes year over year (2018: 74.7 million bushels, 2017: 111.1 million bushels) offset by higher margins. In fiscal year 2018, the Corporation was selective in their trading opportunities and focused more on higher margins as opposed to larger volumes.

#### Storage and rental income

Storage and rental income increased \$1.6 million in the year ended June 30, 2018 compared to the year ended June 30, 2017. The Corporation's storage and rental income increase was primarily a result of an increase in margin in relation to third-party agreements related to the Corporation's facilities in the United States.

#### Logistics and transloading

Logistics and transloading revenue increased \$1.8 million in the year ended June 30, 2018 compared to the year ended June 30, 2017. The increase was due primarily to fertilizer transloading income, whose shipments began in the fourth quarter of fiscal 2017 as well as an increase of greater than 30% in Natural Gas Liquids ("NGLs") shipped out of Northgate.

#### Operating expenses and depreciation

For the year ended June 30, 2018, operating and depreciation expense included in cost of sales totaled \$17.5 million compared to \$18.3 million for the year ended June 30, 2017. The primary reason behind the decrease is due to the sale of the Buffalo and Duluth Lakeport facilities as well as the Corporation's continued efforts to reduce costs. The Buffalo and Duluth Lakeport facilities incurred operating expense in fiscal year 2017 and were sold in early fiscal 2018.

#### **General and Administrative Expenses**

For the year ended June 30, 2018, general and administrative expenses totaled \$11.9 million compared to \$9.6 million in the year ended June 30, 2017. The increase in administration expense was primarily due to efforts to add talent to the Corporation and strengthen its senior management team. The increase is also related to higher legal expenses in connection with the Corporation's preparation for the upcoming Scoular litigation.

#### **Finance Income (Loss)**

For the year ended June 30, 2018, finance loss totalled \$357 thousand compared to a finance loss of \$268 thousand during the year end June 30, 2017. Finance income (loss) is composed of realized and unrealized gains and losses on foreign exchange transactions and currency hedging transactions along with revaluation gains of portfolio investments. The finance loss increase of \$89 thousand is primarily due to the revaluation of portfolio investments offset by foreign exchange gains.

#### **Gain (Loss) on Property, Plant and Equipment**

During the year ended June 30, 2018, the Corporation recorded an impairment loss related to its Calumet facility (Minneapolis, Minnesota), as the operations have ceased, and the cash flows associated with this specific asset could no longer support its carrying value. Ceres recorded a loss of \$236 thousand on the impairment, which is classified within profit or loss as "(Loss) gain on property, plant and equipment".

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 twelve months ended June 30, 2018. Both facilities were classified as “Assets held for sale” on the Consolidated Balance Sheet in the June 30, 2017 audited Consolidated Financial Statements, valued at nil, being the lesser of their carrying amount and fair value less costs to sell.

### **Gain (Loss) on Equity Investment**

On April 30, 2018, the Corporation formed Savage Riverport, LLC and transferred the grain elevator and related assets at its Savage, Minnesota facility, which had net book value of \$9.3 million as at April 30, 2018, to the newly formed entity. Subsequent to the transaction, Ceres received cash of \$8.5 million from Consolidated Grain and Barge in exchange for 50% of the equity in Savage Riverport, LLC, of which, \$2.0 million was utilized to pay down the term debt. The sale of the equity in Savage Riverport, LLC 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.

### **Interest Expense**

<i>(in thousands of USD)</i>	For the year ended	
	<b>June 30, 2018</b>	June 30, 2017
Revolving credit facility	\$ (1,785)	\$ (1,823)
Repurchase obligations	(37)	(297)
Long-term debt	(892)	(1,163)
Other financing obligations	(8)	-
Amortization of financing costs paid	(450)	(596)
Total interest expense	<b>\$ (3,172)</b>	<b>\$ (3,879)</b>

For the year ended June 30, 2018, interest expense totaled \$3.2 million compared to \$3.9 million for the year ended June 30, 2017. The decrease in interest expense was due to lower inventory levels on hand throughout the year resulting in lower average borrowings on the revolving credit facility and repurchase obligations. Additionally, the interest expense related to the term debt decreased. This is a result of the two principal payments totaling \$5 million in fiscal year 2018.

### **Share of Net Income (Loss) in Investments in Associates**

For the year ended June 30, 2018, the Corporation incurred a loss in its net share in investments in associates of \$218 thousand compared to a loss of \$237 thousand for the year ended June 30, 2017.

## 2. QUARTERLY FINANCIAL DATA

	3 months	3 months	3 months	3 months	3 months	3 months	3 months	3 months
Reporting dates	<u>6/30/2018</u>	<u>3/31/2018</u>	<u>12/31/2017</u>	<u>9/30/2017</u>	<u>6/30/2017</u>	<u>3/31/2017</u>	<u>12/31/2016</u>	<u>9/30/2016</u>
(in thousands of USD except per share)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues	\$ 92,809	\$ 98,106	\$ 89,569	\$ 130,638	\$ 112,178	\$ 128,534	\$ 131,838	\$ 155,927
Gross profit	\$ 1,925	\$ 2,399	\$ 4,283	\$ 3,063	\$ 52	\$ 3,048	\$ 2,870	\$ 1,871
Income (loss) from operations	\$ (971)	\$ (933)	\$ 1,162	\$ 519	\$ (2,522)	\$ 631	\$ 779	\$ (605)
Net income (loss)	\$ 1,829	\$ (1,802)	\$ 224	\$ (806)	\$ (4,040)	\$ (8,104)	\$ (153)	\$ (1,356)
Return on shareholders' equity <sup>1</sup>	1.2%	-1.2%	0.1%	-0.5%	-2.7%	-5.4%	-0.1%	-0.9%
Weighted-average number of common shares for the quarter	27,935	27,935	27,917	27,910	27,947	28,030	27,303	26,889
Basic and fully diluted earnings (loss) per share	\$ 0.07	\$ (0.06)	\$ 0.01	\$ (0.03)	\$ (0.14)	\$ (0.29)	\$ (0.01)	\$ (0.05)
EBITDA <sup>1</sup>	\$ 209	\$ 302	\$ 2,333	\$ 1,524	\$ (1,720)	\$ 1,568	\$ 2,002	\$ 744
EBITDA per share	\$ 0.01	\$ 0.01	\$ 0.08	\$ 0.05	\$ (0.06)	\$ 0.06	\$ 0.07	\$ 0.03
Shareholders' equity, as at reporting date	\$ 147,497	\$ 147,116	\$ 150,761	\$ 151,094	\$ 148,759	\$ 150,958	\$ 158,367	\$ 155,062
Shareholders' equity per common share, as at reporting date	\$ 5.00	\$ 5.00	\$ 5.40	\$ 5.41	\$ 5.33	\$ 5.40	\$ 5.64	\$ 5.77
<b>Volumes</b>								
Elevator bushels handled	12,495	11,495	14,342	22,874	26,099	16,055	20,021	25,030
Direct ship bushels	1,758	4,797	2,610	4,363	3,580	5,809	4,641	9,912

<sup>1</sup>Non-IFRS measurement. See "Non-IFRS Financial Measures and Reconciliations" section below for further information.

Note: The data in the schedule above has been intentionally rounded to the nearest thousand, and therefore, the quarterly amounts may not sum to the fiscal year-to-date amounts.

### Fourth Quarter

Gross profit for the quarter ended June 30, 2018 increased \$1.87 million to \$1.93 million compared to the same period of the previous year. The increase in gross profit was driven by the Corporation's focus on executing trades with higher margin opportunity as opposed to high trading volume. Operating and depreciation expense in cost of sales decreased by \$700 thousand primarily due the disposal of the Savage elevator for the formation of Savage Riverport, LLC. General and administrative expenses increased \$321 thousand for the quarter ended June 30, 2018 compared to the same quarter in prior year due to an increase in legal expenses in connection with the Corporation's preparation for the upcoming Scoular trial. The Corporation recognized a net income for the quarter ended June 30, 2018 of \$1.8 million compared to net loss of \$4.0 million in the same quarter of the prior year. In addition to the increased gross profit discussed above, the Corporation recognized a \$3.7 million gain in relation to the sale of its equity investment in Savage Riverport, LLC.

### 3. LIQUIDITY & CASH FLOW

<i>(in thousands of USD)</i>	For the year ended	
	June 30, 2018	June 30, 2017
Net Cash Provided by (Used in)		
Operating activities	\$ 44,352	\$ 14,624
Investing activities	6,797	(10,947)
Net Cash Provided (Used) Before Financing Activities	51,149	3,677
Financing Activities	(50,776)	(2,982)
Foreign Exchange Cash Flow Adjustment on Accounts Denominated in a Foreign Currency	2	-
Increase (Decrease) in Cash and Cash Equivalents	\$ 375	\$ 695

#### Operating Activities

Cash provided by operating activities was \$44.4 million for the year ended June 30, 2018 compared to \$14.6 million in the prior year. The \$29.7 million increase in cash provided by operating activities was primarily a result of better operating results and lower inventory levels year over year.

#### Investing Activities

During the year ended June 30, 2018, cash provided by investing activities was \$6.8 million (which comprised mainly of the formation and sale of 50% of Savage Riverport, LLC) compared to the \$10.9 million cash used in investing activities in the prior year. The \$17.7 million decrease in cash used by investing activities was primarily due to the completion of asset purchases for the fertilizer facility at Northgate in the prior year.

#### Financing Activities

During the year ended June 30, 2018, the Corporation had \$50.8 million in cash used in financing activities compared to \$3.0 million in the prior year. The \$47.8 million increase in cash used by financing activities was primarily due to the decrease of borrowings on the revolving line of credit as a result of cash generated from operations as well as lower inventory levels throughout the year.

#### Available Sources of Liquidity

The Corporation's sources of liquidity as at June 30, 2018 include available funds under its revolving credit facility (the "Credit Facility"). Management believes that cash flow from operations will be adequate to fund operating expenditures, maintenance capital, interest, and any income tax obligations. Growth capital expenditures in the next year are expected to be funded by cash on hand and borrowing against the Credit Facility. Any additional debt incurred is expected to be serviced by the anticipated increases in cash flow and will only be borrowed within the Corporation's debt covenant limits.

In addition, the Credit Facility, as at June 30, 2018 contains certain covenants, including a covenant that the Corporation maintain minimum working capital of not less than \$30.0 million. As at June 30, 2018 the Corporation's working capital – defined as current assets less current liabilities – totaled \$40.4 million. In addition to working capital, the covenants include the maintenance of "consolidated debt" to "consolidated tangible net worth" (as defined in the agreement) of not more than 4.0 to 1.0 and consolidated tangible net worth of not less than \$120.0 million. As at June 30, 2018 and June 30, 2017, the Corporation was in compliance with all of the above mentioned financial covenants.

## Liquidity risk

As at June 30, 2018 and 2017, the following are the contractual maturities of financial liabilities, excluding interest payments:

<i>(in thousands of USD)</i> <u>June 30, 2018</u>	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>1 year</u>	<u>2 years</u>	<u>3 to 5 years</u>	<u>More than 5 years</u>
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	-	-	-
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	-

<i>(in thousands of USD)</i> <u>June 30, 2017</u>	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>1 year</u>	<u>2 years</u>	<u>3 to 5 years</u>	<u>More than 5 years</u>
Bank indebtedness	\$ 56,443	\$ 56,595	\$ 56,595	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	22,560	22,560	22,560	-	-	-
Unrealized losses on open cash contracts	14,066	14,066	14,066	-	-	-
Term debt	14,454	15,000	3,000	5,000	7,000	-
Operating lease obligations	-	1,652	517	456	679	-

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

## **4. CAPITAL RESOURCES**

The Corporation utilizes the Credit Facility to finance its grain trading operations, which primarily consist of purchases of grain inventories, financing of accounts receivable, and hedging activities, less accounts payable. Levels of short-term debt fluctuate based on changes in underlying commodity prices, inventories on hand and the timing of grain purchases.

### **Credit Facility**

As disclosed in the Consolidated Financial Statements for the year ended June 30, 2018, on December 28, 2017 the Corporation renewed and amended its uncommitted credit facility to a maximum revolving facility amount of \$67.5 million. The agreement is set to expire on December 27, 2018. Borrowings bear an interest rate of overnight LIBOR plus 3.875% per annum, calculated and paid on a monthly basis. The Credit Facility is subject to borrowing base limitations. Amounts under the Credit Facility that remain undrawn are not subject to a commitment fee. The Credit Facility has certain covenants pertaining to the accounts of the Corporation, and as at June 30, 2018, the Corporation was in compliance with all covenants.

### **Term Loan**

In accordance with the Corporation's senior secured term loan facility agreement with Macquarie Bank entered into on December 30, 2014 and subsequently amended, a principal payment of \$3.0 million was paid on December 29, 2017 and an additional \$2 million was paid on April 30, 2018. The next principal payment is payable on December 28, 2018 for the amount of \$5.0 million and the final principal payment is due on December 27, 2019 in the amount of \$5.0 million. The term loan has an interest rate of one-month LIBOR plus 5.25%.

### **Normal Course Issuer Bid**

During the year ended June 30, 2018, the Corporation did not qualify to purchase any Shares under any Normal Course Issuer Bid.

During the year period ended June 30, 2017, the Corporation purchased Shares under normal course issuer bids, the purpose of which was to provide Ceres with a mechanism to decrease the potential spread between the net asset value per Share and the market price of the common shares. The Corporation renewed the normal course issuer bid ("the 2016-2017 NCIB") commencing on June 12, 2016. Using the facilities of the Toronto Stock Exchange ("TSX") and in accordance with its rules and policies, Ceres intended to purchase up to a maximum of 1,595,765 of its Common Shares, representing approximately 10% of its unrestricted public float as of June 2, 2016, subject to a maximum aggregate purchase price of CAD \$5 million pursuant to restrictions under the Corporation's Credit Facility. Ceres purchased up to a daily maximum of 2,119 Common Shares under the 2016-2017 NCIB, except for purchases made in accordance with the "block purchase" exception under applicable TSX rules and policies. The 2016-2017 NCIB concluded on June 11, 2017.

During the year ended June 30, 2017, the Corporation purchased a total of 257,582 common shares under the normal course issuer bid for aggregate cash consideration of \$1.1 million. The stated capital value of these repurchased Shares was \$1.9 million. The excess of the stated capital value of the repurchased common shares over the cost thereof, being \$826 thousand, was allocated to Deficit in the twelve-month period ended June 30, 2017.

## **5. ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

### **Changes in Accounting Policies and Standards Issued but Not Yet Effective**

Refer to Note 3 to the Annual Consolidated Financial Statements for information pertaining to accounting changes and information on standards issued but not yet effective for the period ending June 30, 2018.

### **Critical Accounting Estimates**

The discussion and analysis of Ceres' financial condition and results of operations are based upon the Corporation's Consolidated Financial Statements, which have been prepared in accordance with IFRS. Ceres' significant accounting policies and accounting estimates are contained in the Annual Consolidated Financial Statements (see Notes 3 and 4, respectively, for the description of policies or references to notes where such policies are contained). The critical accounting estimates are valuation of investments; valuation of inventories and commodity derivatives; because they require Ceres to make assumptions about matters that are potentially uncertain at the time the accounting estimate is made and due to the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

## **6. OUTLOOK**

### **Grain Division**

The 2018 cereal grain growing season began with good growing conditions along with increased acreage in the western half of the U.S. and Southwestern Canadian growing areas followed by late summer heat and drought.

These conditions created a significant amount of volatility for markets. Initially, prices decreased due to increased acreage and favorable growing conditions, then more recently prices increased as yields have been less than expected due to drought conditions. In addition, uncertainty in foreign policy, particularly in the US, related to tariff implementations has directly impact pricing of cereal grains.

Early indications for the upcoming crop year harvest suggest increased yields for spring wheat and durum and lower forecasted production for oats. There were some bin cleanouts by farmers in June, primarily in wheat and durum, but as prices fell so did sales from farmers. The timing of future sales will depend on whether new production volumes force sales to ramp up as the harvested crops are brought in from the fields.

With trade wars pressuring North American commodities, there have been some negative impacts on cereal grain prices. This is especially evident in the Western growing regions of North America where the bulk of the Corporation's facilities are located. In contrast to the North American price weakness, several European and Australian crops (oats, wheat and canola) have suffered from heat and drought which has reduced supply in those regions. The Corporation will look to take advantage of both the larger storage revenue potential and the increased exports in our core commodities.

In addition, the Corporation continues to focus on its long-term goals which include:

1. Increasing origination volume direct from farmers in the U.S. and Canada;
2. Maximizing volumes and value through and around its network, capitalizing on its asset utility and effectively lowering fixed cost per bushel handled;
3. Investing in its infrastructure to broaden its product portfolio and focus more on pulses and specialty crops, both at Northgate and other locations;
4. Extending its reach to chosen quality conscious customers both in the U.S. and internationally;
5. Hiring talented people who can execute on the above items.

### **Supply Chain Services Division**

Q4 2018 experienced a steady increase in volumes from nearly all products vs Q4 2017, most notably with NGLs which increased more than 30% vs. Q3 and Q4 2017. From Northgate, NGLs are unloaded from trucks onto BNSF railcars for shipment into the US & Mexico. Demand has been strong and volumes continue to exceed expectations. The Corporation expects volumes will maintain these higher levels throughout the rest of the autumn season. Fertilizer movement was modest as Q4 is an off-season time of year. The next surge in volume will happen in late Q1 and into Q2, and volumes are expected to be higher in fiscal year 2019 vs. 2018.

The Corporation had previously advised its efforts to explore opportunities to build out and further develop the NLC energy & industrial products transloading business, including the potential to handle other types of energy and industrial products such as crude oil, oil field supplies, construction materials, and industrial parts and equipment. Consistent with these efforts, the Corporation is presently engaged in discussions and analysis with an oil and gas infrastructure company concerning the feasibility of constructing a pipeline to transport crude oil to NLC for movement by rail into the U.S. In addition, through a coordinated effort with BNSF, the Corporation has worked with U.S. Customs & Border Patrol (CBP) to provide the infrastructure and personnel needed to inspect a broad list of products that were previously not approved for import into the U.S. As a result of that effort CBP has approved the following products and efforts are being made to add those to the Corporation's portfolio of supply chain services: dried leguminous vegetables, seeds, crude, alfalfa, butane, LPG, coal, fly ash, lumber, Oriented Strand Board ("OSB"), sodium chloride and sodium phosphate.

With expected increases in volumes from existing products, exploration and ultimately development of liquid energy infrastructure, and a broader portfolio of products now approved for import into the U.S., the



Corporation expects steady growth from the transload and supply chain service business at Northgate, Saskatchewan and will continue to pursue those types of opportunities at other locations as well.

## **7. OTHER**

### **CONTROLS ENVIRONMENT**

#### **Disclosure Controls and Procedures**

Ceres maintains appropriate information systems, procedures, and controls to ensure that new information disclosed externally is complete, reliable, and timely. National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") requires the Chief Executive Officer and the Chief Financial Officer to certify that they are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and that they have, as at June 30, 2018, designed the DC&P (or have caused such DC&P to be designed under their supervision) to provide reasonable assurance that material information relating to Ceres is made known to them by others, particularly during the period in which Ceres' annual filings are being prepared, and that information required to be disclosed by Ceres in its annual filings, interim filings or other reports filed or submitted by Ceres under applicable securities legislation is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation.

#### **Internal Controls over Financial Reporting**

NI 52-109 also requires the Chief Executive Officer and the Chief Financial Officer to certify that they are responsible for establishing and maintaining internal control over financial reporting ("ICFR") and that they have, as at June 30, 2018, designed ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS). The control framework used by the Chief Executive Officer and the Chief Financial Officer to design Ceres' ICFR is the *Risk Management and Governance: Guidance on Control* (COCO Framework) published by CPA Canada (formerly The Canadian Institute of Chartered Accountants). There have been no material changes in the Corporation's internal control over financial reporting during the year ended June 30, 2018 that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Corporation's financial instruments and other instruments, including a discussion of risks and relevant risk sensitivities, can be found in footnote 8 of the Annual Consolidated Financial Statements.

### **OFF-BALANCE SHEET ARRANGEMENTS**

Ceres has operating lease commitments that are not recorded on the balance sheet. Refer to footnote 8 for the schedule for the contractual maturities of operating lease obligations.

## RELATED-PARTY TRANSACTIONS

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, 2018	June 30, 2017
Employee/director salaries and benefits	\$ 1,266	\$ 1,091
Share-based compensation	233	417
	<u>\$ 1,499</u>	<u>\$ 1,508</u>

### *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 included in total revenue in the Consolidated Statements of Income include \$13 thousand and nil for fiscal year 2018 and 2017, respectively. Related party expenses recorded in cost of goods sold are \$240 thousand and nil for fiscal year 2018 and 2017, respectively. As at June 30, 2018, the accounts receivable, due from Savage Riverport, LLC totaled \$29 thousand and accounts payable, due to Savage Riverport, LLC totaled \$36 thousand.

## SHARES OUTSTANDING

As at September 25, 2018, the issued and outstanding equity securities of the Corporation consisted of 27,934,991 common shares. In addition, the Corporation has 1,350,462 stock options outstanding with a weighted-average exercise price of C\$5.84 per common share and 252,503 deferred share units outstanding.

## CONTINGENCIES

See Note 19 of the Annual Consolidated Financial Statements for disclosure of the Corporation's contingencies as at June 30, 2018.

## 8. NON-IFRS FINANCIAL MEASURES AND RECONCILIATIONS

Certain financial measures in this annual MD&A and discussed below are not prescribed by and do not have a standardized meaning under IFRS. As such, they are unlikely to be comparable to similar measures presented by other issuers. These non-IFRS financial measures are included because management uses the information to analyze leverage, liquidity, and operating performance.

### **Earnings Before Interest, Income Taxes, Depreciation and Amortization**

The Corporation believes the presentation of EBITDA can provide useful information to investors and shareholders as it provides increased transparency. EBITDA is one metric that is used by management to determine the Corporation's ability to service its debt and finance capital. EBITDA excludes gains and losses on property, plant and equipment, assets held for sale, and gains and losses on equity investments as these items are considered to be non-reoccurring in nature.

The following table is a reconciliation of EBITDA for Ceres on a consolidated basis for the year ended June 30, 2018, and the year ended June 30, 2017:

<i>(in thousands of USD)</i>	Twelve-months ended	
	<b>June 30, 2018</b>	June 30, 2017
Net income (loss) for the period	\$ (556)	\$ (13,652)
Add/(Deduct):		
Interest Expense	3,172	3,879
Revaluation of derivative warrant liability	-	(104)
Loss (Gain) on sale or property, plant and equipment	299	7,651
Loss (Gain) on equity investment	(3,675)	-
Income taxes (recovered)	(38)	4
Share of net (income) loss in investments in associates	218	237
Depreciation on property, plant and equipment	4,949	4,581
	<b>\$ 4,369</b>	<b>\$ 2,596</b>

### Return on Shareholders' Equity

Ceres believes that the return on shareholders' equity can be an effective measure used to evaluate the performance of the business over time. Management uses this metric to analyze performance and set targets. Return on shareholders' equity is the quotient of the net income (loss) for the period and the total shareholders' equity as at the reporting date.

The following table is a calculation of return on shareholders' equity for the year ended June 30, 2018, and the year ended June 30, 2017:

<i>(in thousands of USD)</i>	Twelve months ended	
	<b>June 30, 2018</b>	June 30, 2017
Net income (loss) for the period	\$ (556)	\$ (13,653)
Total shareholders' equity as at reporting date	\$ 147,497	\$ 148,759

### Adjusted Net Income (Loss)

The Corporation believes that the adjusted net income (loss) can be an effective measure used to evaluate its profitability by excluding non-reoccurring items. In calculating adjusted net income, Ceres excludes gain (loss) on sale or impairment of property, plant and equipment, income (loss) from investments in associates, revaluation of warrants, gain (loss) on equity investments, legal expense related to ongoing litigation and one-time write-downs. Ceres may calculate adjusted net income differently than other companies; therefore, Ceres' Adjusted Net Income (Loss) may not be comparable to similar measures presented by other issuers.

The following table is the adjusted net income (loss) for the year ended June 30, 2018, and the year ended June 30, 2017:

<i>(in thousands of USD)</i>	Twelve-months ended	
	<b>June 30, 2018</b>	June 30, 2017
Adjusted net income (loss)	\$ (1,438)	\$ (5,123)

## 9. KEY ASSUMPTIONS & ADVISORIES

### FORWARD LOOKING INFORMATION

This annual MD&A contains information that is “forward-looking information”, “forward-looking statements” and “future oriented financial information” (collectively herein referred to as “forward-looking statements”) within the meaning of applicable securities laws. Forward-looking statements in this document may include, among others, statements regarding future operations and results, anticipated business prospects and financial performance of Ceres and its subsidiaries, expectations or projections about the future, strategies and goals for growth, the action against Ceres initiated by the Scoular Company, expected and future cash flows, costs, planned capital expenditures, additional anticipated capital projects, construction and completion dates, including plans to further develop the NLC, operating and financial results, critical accounting estimates and the expected financial and operational consequences of future commitments.

Generally, forward-looking statements can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “outlook”, “likely”, “probably”, “going forward”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, “believes”, “may have implications” or similar words and phrases or statements that certain actions, events or results “may”, “could”, “should”, “would”, “might”, or “will be taken”, “occur”, or “be achieved”. Forward-looking statements in this document are intended to provide Ceres’ shareholders and potential investors with information regarding Ceres and its subsidiaries, including Management’s assessment of future financial and operational plans and outlook for Ceres and its subsidiaries.

Forward-looking statements are based on the opinions and estimates of management at the date the information is made, and are based on a number of assumptions and subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Actual results or events may differ from those predicted in these forward-looking statements. All of the Corporation’s forward-looking statements are qualified by the assumptions that are stated or inherent therein, including the assumptions listed below. Although Ceres believes these assumptions are reasonable, this list is not exhaustive of factors that may affect any of the forward-looking statements.

### KEY ASSUMPTIONS

Key assumptions have been made in connection with the forward-looking statements in this annual MD&A. These assumptions include, but are not limited to, the following:

- No material change in the regulatory environment in Canada and the United States;
- Supply and demand factors as well as the pricing environment for grains and other agricultural commodities;

- Fluctuation of currency and interest rates;
- General financial conditions for Western Canadian and American agricultural producers;
- Market share that will be achieved by the Corporation;
- Adequate and timely service from the railroad companies, and in particular from the Burlington Northern Santa Fe railroad at the NLC;
- The ability of Ceres to successfully operate Northgate;
- The Corporation's ability to successfully defend itself against, or settle, the dispute with The Scouler Company and the costs of that dispute;
- Realization of economic benefits resulting from the synergies with NLC; and
- The Corporation's ability to maintain existing customer contracts and relationships coupled with its ability to increase its customer portfolio.

The preceding list is not an exhaustive list of all possible factors. All factors should be considered carefully when making decisions with respect to Ceres. Many such factors and events are not within the control of Ceres. Factors that could cause actual results or events to differ materially from current expectations include, among others, risks related to weather, politics and governments, changes in environmental and other laws and regulations, competitive factors in the agricultural, food processing and feed sectors, construction and completion of capital projects, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, technological developments, global and local economic conditions, the ability of Ceres to successfully implement strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of the Corporation's assets, the availability and price of commodities, and the regulatory environment, processes and decisions. Ceres has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements. However, there may be other factors that might cause actions, events or results that are not anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements or information.

By its nature, forward-looking information is subject to various risks and uncertainties, including those risks discussed in other sections of this annual MD&A and in other filings and communications, any of which could cause Ceres' actual results and experience to differ materially from the anticipated results or published expectations. Additional information on these and other factors is available in the reports filed by Ceres with Canadian securities regulators. Readers are cautioned not to place undue reliance on the forward-looking statements herein, which are given as of the date of this annual MD&A or otherwise, and not to use future-oriented information or financial outlooks for anything other than their intended purpose. Ceres undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, change in management's estimates or opinions, future events or otherwise, except as required by law.

# CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2018 and the year ended June 30, 2017  
(Expressed in US Dollars)

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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 25, 2018 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 Wolrige Mahon Collins Barrow 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. Wolrige Mahon Collins Barrow LLP has full and unrestricted access to the Audit Committee.

Robert Day  
President and CEO

Kyle Egbert  
Chief Financial Officer

**Wolrige Mahon Collins Barrow LLP**

VANCOUVER OFFICE  
900 – 400 Burrard Street  
Vancouver, BC V6C 3B7  
Canada  
T: 604.684.6212  
F: 604.688.3497  
E: email@wm.ca  
www.collinsbarrow.com

TORONTO OFFICE  
1400 – 200 University Avenue  
Toronto, ON M5H 3C6  
Canada  
T: 416.368.7990  
F: 416.368.0886  
E: email@wm.ca  
www.collinsbarrow.com

**INDEPENDENT AUDITOR’S REPORT**

**To the Shareholders of Ceres Global Ag Corp.**

We have audited the accompanying consolidated financial statements of Ceres Global Ag Corp. and its subsidiaries, which comprise the consolidated balance sheets as at June 30, 2018 and 2017, and the consolidated statements of net income (loss) and comprehensive income (loss), statements of changes in shareholders’ equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management’s Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these 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.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ceres Global Ag Corp. and its subsidiaries as at June 30, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Wolrige Mahon Collins Barrow LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS

September 25, 2018  
Vancouver, B.C.



**CERES GLOBAL AG CORP.**

Consolidated Balance Sheets

<i>(In thousands of USD)</i>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>Assets</b>		
Current assets:		
Cash	\$ 960	\$ 585
Due from brokers (Note 6)	1,923	1,828
Unrealized gains on open cash contracts	8,131	10,502
Accounts receivable	16,580	22,695
Accounts receivable due from associates (Note 16)	29	—
Inventories, grains (Note 5)	43,952	95,275
Prepaid expenses and sundry assets	1,946	1,924
Portfolio investments	2,694	3,193
Total current assets	76,215	136,002
Deferred tax asset (Note 18)	172	—
Investments in associates (Note 7)	7,289	2,706
Intangible assets	300	300
Property, plant and equipment (Note 9)	104,025	117,274
Total assets	\$ 188,001	\$ 256,282
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness (Note 10)	\$ 10,910	\$ 56,443
Current portion of long-term debt (Note 11)	5,000	3,000
Accounts payable and accrued liabilities	16,574	22,560
Accounts payable due to associates (Note 16)	36	—
Unrealized losses on open cash contracts (Note 8)	3,323	14,066
Total current liabilities	35,843	96,069
Long-term debt (Note 11)	4,661	11,454
Total liabilities	40,504	107,523
Shareholders' equity:		
Common shares (Note 14)	203,358	203,263
Deferred share units (Note 15)	801	771
Contributed surplus	9,771	9,632
Accumulated other comprehensive income (loss)	(22,355)	(21,385)
Deficit	(44,078)	(43,522)
Total shareholders' equity	147,497	148,759
Contingent liabilities (Note 19)		
Total liabilities and shareholders' equity	\$ 188,001	\$ 256,282

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 Net and Comprehensive Income (Loss)

Twelve months ended June 30, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
Revenues	\$ 411,122	\$ 528,478
Cost of sales	<u>(399,452)</u>	<u>(520,637)</u>
Gross profit	11,670	7,841
General and administrative expenses	<u>(11,893)</u>	<u>(9,558)</u>
Income (loss) from operations	(223)	(1,717)
Finance income (loss) (Note 12)	(357)	(268)
Interest expense (Note 13)	(3,172)	(3,879)
Revaluation of derivative warrant liability	—	104
Gain (loss) on equity investment (Note 7)	3,675	—
Gain (loss) on property, plant and equipment (Note 9)	<u>(299)</u>	<u>(7,651)</u>
Income (loss) before income taxes and undernoted items	(376)	(13,411)
Income tax (expense) recovered (Note 18)	38	(4)
Share of net income (loss) of associates	<u>(218)</u>	<u>(237)</u>
Net income (loss)	(556)	(13,652)
Components of comprehensive income (loss):		
Gain (loss) on currency translation adjustment	<u>(970)</u>	<u>(24)</u>
Total comprehensive income (loss)	<u>\$ (1,526)</u>	<u>\$ (13,676)</u>
Weighted-average number of shares for the year	27,924,308	27,538,615
Loss per share:		
Basic	\$ (0.02)	\$ (0.50)
Diluted	(0.02)	(0.50)
Supplemental disclosure of selected information:		
Depreciation included in Cost of sales	\$ (4,874)	\$ (4,495)
Depreciation included in General and administrative expenses	(75)	(86)
Amortization of financing costs included in Interest expense	(450)	(596)
Personnel costs included in Cost of sales	(5,564)	(5,821)
Personnel costs included in General and administrative expenses	(6,860)	(5,358)

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, 2018 and 2017

<i>(In thousands of USD)</i>	<b>2018</b>	<b>2017</b>
Operating activities:		
Net loss	\$ (556)	\$ (13,652)
Adjustments for:		
Depreciation of property, plant and equipment	4,949	4,581
Interest expense	3,172	3,879
Gain on equity method investment	(3,675)	—
Bad debt expense	315	—
Revaluation of portfolio investments	486	188
Loss on disposal of property, plant and equipment	299	7,651
Deferred income tax	(172)	—
Income tax expense (net)	—	(20)
Share-based compensation	363	467
Share of net loss of associates	218	237
Revaluation for future payments to Front Street Capital	(11)	(61)
Revaluation of derivative warrant liability	—	(104)
Revaluation of foreign denominated accounts	(7)	—
Changes in non-cash working capital accounts:		
Due from brokers	(95)	3,631
Decrease in net open cash contracts	(8,396)	6,102
Accounts receivable, trade	5,821	(9,152)
Accounts receivable due from associate(s)	(29)	—
Inventories, grains	51,560	7,383
Prepaid expenses and sundry assets	(814)	(27)
Accounts payable and accrued liabilities	(6,264)	6,816
Accounts payable due to associate(s)	37	—
Interest paid	(2,849)	(3,295)
Net cash provided by operating activities	44,352	14,624
Investing activities:		
Disposition of assets held for sale	(63)	—
Net proceeds from sale of equity method investment	8,205	—
Acquisition of property, plant and equipment	(1,345)	(10,947)
Net cash provided by (used in) investing activities	6,797	(10,947)
Financing activities:		
Net proceeds (repayment) of bank indebtedness	(45,595)	1,596
Repayment of term loan	(5,000)	(8,642)
Financing costs paid	(181)	(305)
Warrants exercised	—	5,425
Repurchase of common shares under normal course issuer bid	—	(1,056)
Net cash (provided by) used in financing activities	(50,776)	(2,982)
Effect of exchange rate changes on cash	2	—
Increase in cash	375	695
Cash, beginning of period	585	(110)
Cash, end of period	\$ 960	\$ 585

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, 2018 and 2017

<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, 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 incentive compensation	13	—	210	—	—	223
Stock option modification	—	—	(71)	—	—	(71)
Net loss	—	—	—	—	(556)	(556)
Other comprehensive income (loss)	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	(970)	—	(970)
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>
Balances, June 30, 2016	\$ 199,606	\$ 617	\$ 9,432	\$ (21,361)	\$ (30,696)	\$ 157,598
Issuance of Deferred Share Units	—	231	—	—	—	231
Redemption of Deferred Share Units	70	(70)	—	—	—	—
Fair value adjustment of Deferred Share Units	—	(7)	—	—	—	(7)
Repurchases under normal course issuer bid	(1,882)	—	—	—	826	(1,056)
Share incentive compensation	—	—	200	—	—	200
Director remuneration	44	—	—	—	—	44
Exercise of warrants	5,425	—	—	—	—	5,425
Net loss	—	—	—	—	(13,652)	(13,652)
Other comprehensive income	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	(24)	—	(24)
Balances, June 30, 2017	<u>\$ 203,263</u>	<u>\$ 771</u>	<u>\$ 9,632</u>	<u>\$ (21,385)</u>	<u>\$ (43,522)</u>	<u>\$ 148,759</u>

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

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

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

These consolidated financial statements of Ceres as at and for the years ended June 30, 2018 and 2017 include the accounts of Ceres and its wholly owned subsidiaries Ceres U.S. Holding Corp. and Riverland Ag Corp. (“Riverland Ag”). All intercompany transactions and balances have been eliminated. In combination with Riverland Ag, the Corporation is an agricultural cereal grain storage, customer-specific procurement and supply ingredient company that operates six grain storage, handling and merchandising facilities in the state of Minnesota and the provinces of Ontario and Saskatchewan, with a combined licensed capacity of 29.7 million bushels.

The Corporation has one reportable segment while having two operating segments: (1) grain trading, handling and storage; and (2) logistics and supply chain solutions, which includes transloading non-grain commodities on behalf of third-party customers. With the exception of \$3.2 million of revenue recognized for the year ended June 30, 2018 and \$1.4 million for the year ended June 30, 2017, all of the Corporation’s revenues are comprised of grain trading, handling and storage.

**(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 25, 2018.

**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 are measured at fair value; and
- Inventories of grains are measured at fair value less costs to sell.

### (3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been applied consistently to all periods presented in these consolidated financial statements.

#### **Revenue recognition, net sales and cost of sales**

The Corporation follows a policy of recognizing sales revenue at the time of delivery of the product and when all of 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) on the Statement of Net and Comprehensive Income (Loss).

#### **Investments in associates**

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.

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**Investment in Joint Arrangements**

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 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 the Statement of Net and Comprehensive Income (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 of financial instruments**

*Financial assets*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions in accordance with the Corporation's documented risk management and investment strategies. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income or loss. Portfolio investments represent non-derivative financial assets classified as held for trading. The Corporation's unrealized gains on open cash contracts are derivative financial assets classified as held for trading.

Financial assets having fixed or determinable payments, and which are not quoted in an active market are defined as loans and receivables. Such assets are initially recognized at fair value plus directly attributable transaction costs, if any. Thereafter, loans and receivables are measured at amortized cost using the effective interest method less impairment losses, if any. Loans and receivables include cash, due from brokers, and accounts receivable, trade, and accounts receivable, due from associates.

*Financial liabilities*

Unrealized losses on open cash contracts are classified as held for trading and valued at fair value through profit or loss. The provision for future payment to Front Street Capital is also valued at fair value through profit and loss. Non-derivative financial liabilities of the Corporation include bank indebtedness, accounts payable and accrued liabilities, accounts payable due to associates, and long-term debt. These financial liabilities are initially recognized at fair value plus any directly attributable transaction costs. Thereafter, these financial liabilities are measured at amortized cost using the effective interest method.

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*Equity*

Common shares and unconditional warrants

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.

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**

Portfolio investments are held for trading and are measured and reported at fair value.

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 the Statement of Net and Comprehensive Income (Loss)



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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 the Statement of Net and Comprehensive Income (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 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 the Statement of Net and Comprehensive Income (Loss). Translation gains or losses on securities included in the

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investment portfolio of the Corporation are recognized as Finance income (loss) in the Statement of Net and Comprehensive Income (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 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.

Depending on the movements of equity and other markets, finance income and losses will vary for each reporting period.

**Interest expense**

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

**Inventories**

Inventories represent agricultural grain 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

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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.

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

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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 net and comprehensive income (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

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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 Warrants 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. The Corporation revalues DSUs as at each reporting period-end, based on the volume-weighted average trading price per common share of the Corporation on the Toronto Stock Exchange during the immediately preceding five (5) trading days. Revaluation adjustments are recognized as an increase or decrease in the expense for Directors’ fees during the reporting period, with a corresponding increase or decrease in shareholders’ equity.

#### *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.

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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 granted. 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 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.

**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 issued includes those that the Corporation reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date.

**IFRS 9 – Financial Instruments**

On July 24, 2014, the IASB issued the final version of IFRS 9, which replaces *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The new standard introduces requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and the fair value of an entity’s own debt. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. The Corporation plans to adopt the new standard on the required effective date and has initially assessed that there will be no significant impacts on its consolidated financial statements.

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

On May 28, 2014, the IASB issued IFRS 15, which provides a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more relevant disclosures. IFRS 15 supersedes *IAS 18 – Revenue*, *IAS 11 – Construction Contracts* and a number of revenue-related interpretations and applies to annual reporting periods beginning on or after January 1, 2018.

The Corporation’s assessment primarily involved determining whether there were any separately identifiable performance obligations under existing contracts that would affect the timing revenue recognition under IFRS 15. Grain contracts, storage and handling agreements, and transloading revenue were analyzed to

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understand whether the timing and amount of revenue recognized could differ under IFRS 15. The Corporation determined that, as the majority of the Corporation's revenue is derived from arrangements in which the transfer of risks and rewards coincides with the fulfilment of performance obligations and transfer of control as defined by IFRS 15, no material impacts on the timing and measurement of revenue from existing revenue recognition practices are applicable from the adoption of the new standard on the required effective date. Additional disclosures under IFRS 15 are anticipated for reporting periods after the required effective date.

#### **IFRS 16 – Leases**

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

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

The timely preparation of 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. The estimated fair value of the commodity derivative contracts that require the receipt or posting of cash collateral is recorded on a net basis (offset against cash collateral posted or received, also known as margin deposits) within commodity Unrealized gains (losses) on open cash contracts. 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 earnings immediately in Cost of sales in consolidated profit or loss. 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.

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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 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 IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

#### **Valuation of investments**

Portfolio investments are held for trading, are measured and reported at fair value, 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, 2018 and June 30, 2017, the Corporation held \$44.0 million and \$95.2 million, of inventories at fair value less costs to sell, respectively. For the year ended June 30, 2018, inventories recognized as an expense through cost of sales totaled \$370 million. For the year ended June 30, 2017, inventories recognized as an expense through Cost of sales totaled \$445 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>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Margin deposits	\$ 2,216	\$ 2,815
Unrealized gains on futures contracts and options, at fair value	<u>271</u>	<u>33</u>
	2,487	2,848
Unrealized losses on futures contracts and options, at fair value	<u>(564)</u>	<u>(1,020)</u>
Due from brokers	<u>\$ 1,923</u>	<u>\$ 1,828</u>

**(7) INVESTMENTS IN ASSOCIATES**

<i>(in thousands of USD)</i>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Savage Riverport, LLC., common shares	\$ 4,860	\$ —
Stewart Southern Railway Inc., common shares	<u>2,429</u>	<u>2,706</u>
	<u>\$ 7,289</u>	<u>\$ 2,706</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.



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

	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Balance July 1, 2017	\$ —	\$ —
Asset contribution to Savage Riverport, LLC	9,360	—
Sale of 50% equity to CGB	(4,680)	—
Equity investment in joint venture	4,680	—
Working capital contribution	150	—
Corporation 50% share of joint venture net income (loss)	(28)	—
Amortization of deferred gain	58	—
Investment in Savage Riverport, LLC	<u>\$ 4,860</u>	<u>\$ —</u>

Included below is summary balance sheet and profit and loss information of Savage Riverport as at June 30, 2018 and June 30, 2017:

*(in thousands of USD)*

	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Current assets	\$ 697	\$ —
Non-current assets	16,868	—
Total assets	17,565	—
Current liabilities	321	—
Net assets	17,244	—
The following amounts have been included in the amounts above:		
Cash and cash equivalents	\$ 342	\$ —

*(in thousands of USD)*

	<b>Two-month period ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Revenues	\$ 729	\$ —
Income (loss) from continuing operations	(56)	—
Net and comprehensive income (loss)	(56)	—
The following amounts have been included in the amounts above:		
Depreciation and amortization	\$ 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, 2018 and June 30, 2017:

	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Opening net assets of Savage Riverport, LLC	\$ —	\$ —
Investment in Savage Riverport, LLC	17,000	—
Working capital contributions	300	—
Joint venture net loss	(56)	—
Closing net assets if Savage Riverport, LLC	17,244	—
Corporation's share of net assets at 50%	8,622	—
Deferred gain on disposal of asset	(3,820)	—
Plus: Amortization of deferred gain	58	—
Investment in Savage Riverport, LLC	<u>\$ 4,860</u>	<u>\$ —</u>

For the year ended June 30, 2018, 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 profit of \$30 thousand compared to 2017 net income of nil. During the years ended June 30, 2018 and 2017, 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>	<b>Twelve-month period ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Revenues	\$ 709	\$ 1,245
Income (loss) from continuing operations	(1,462)	(1,137)
Net and comprehensive income (loss)	(990)	(948)
Current assets	\$ 1,606	\$ 2,217
Non-current assets	7,862	8,382
Current liabilities	106	145
Non-current liabilities	96	88

For the year ended June 30, 2018, the Corporation's consolidated profit or loss included the Corporation's share in the net loss of SSR's equity of \$248 thousand (2017: net loss of \$237 thousand). During the year ended June 30, 2018, the Corporation did not receive a dividend from SSR (2017: nil).

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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, 2018 and June 30, 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Investee's equity as at reporting date	\$ 9,266	\$ 10,367
Corporation's 25% portion of SSR equity	2,316	2,592
Goodwill	113	114
Carrying Value	<u>\$ 2,429</u>	<u>\$ 2,706</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, 2018.

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>	<u>June 30, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Portfolio investments	\$ —	\$ —	\$ 2,694	\$ 2,694
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)
Provision for future payments to Front Street Capital, included in Accounts Payable	—	—	—	—
	<u>\$ (293)</u>	<u>\$ 4,808</u>	<u>\$ 2,694</u>	<u>\$ 7,209</u>

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<i>(in thousands of USD)</i>	<b>June 30, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Portfolio investments	\$ —	\$ —	\$ 3,193	\$ 3,193
Due from broker, unrealized gains on futures and options (Note 6)	33	—	—	33
Unrealized gains on open cash contracts (derivatives)	—	10,502	—	10,502
Due from broker, unrealized losses on futures and options (Note 6)	(1,020)	—	—	(1,020)
Unrealized losses on open cash contracts (derivatives)	—	(14,066)	—	(14,066)
Provision for future payments to Front Street Capital, included in Accounts Payable	—	(11)	—	(11)
	\$ (987)	\$ (3,575)	\$ 3,193	\$ (1,369)

Reconciliation of Level 3 fair values:

<i>(in thousands of USD)</i>	<b>Level 3</b>
Balance at June 30, 2017	\$ 3,193
Revaluation of portfolio investments	(486)
Currency translation differences	(13)
Balance at June 30, 2018	\$ 2,694

### **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, 2018, the Corporation's market risk pertaining to portfolio investments was potentially affected by changes in actual market prices. As at June 30, 2018, 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, 2018 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.

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The potential effects on the result of operations for the year ending June 30, 2018 would be as follows:

<i>(in thousands of USD except loss per share)</i>	<b>(Increase) decrease in net loss</b>	<b>(Increase) decrease in loss per share</b>
10% increase in fair value of portfolio investments	\$ 269	\$ 0.01
10% decrease in fair value of portfolio investments	\$ (269)	\$ (0.01)

Commodity risk

Management has determined the effect on the results of operations of the Corporation for the year ended June 30, 2018 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.

The potential effects on the results of operations for the year ending June 30, 2018 would be as follows:

<i>(in thousands of USD except loss per share)</i>	<b>(Increase) decrease in net loss</b>	<b>(Increase) decrease in loss per share</b>
5% increase in bid/ask prices of commodities	\$ 284	\$ 0.01
5% decrease in bid/ask prices of commodities	\$ (284)	\$ (0.01)

Interest rate risk

As at June 30, 2018, Ceres had no long or short portfolio positions in any interest-bearing investment securities.

As at June 30, 2018, 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, 2018, 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, 2018, the Corporation's Credit Facility (as defined herein) bears interest at an annual rate of overnight LIBOR plus 3.875%. As at June 30, 2018, 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, 2018, the Corporation's term loan (Note 11) bears interest at an annual rate of one-month LIBOR plus 5.25%. As at June 30, 2018, 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.

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On that basis, the potential effects on the results of operations for the year ending June 30, 2018 would be as follows:

<i>(in thousands of USD except loss per share)</i>	<u><b>Increase in net loss</b></u>	<u><b>Increase in loss per share</b></u>
<u>Revolving credit facility</u>		
25 bps increase in annual interest rate	\$ 85	\$ 0.00
<u>Term loan</u>		
25 bps increase in annual interest rate	\$ 33	\$ 0.00

Credit risk

Credit risk is the risk a counterparty would be unable to pay for amounts due to the Corporation in accordance with the terms and conditions of the debt instruments. As at June 30, 2018, 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 \$271 thousand was deemed uncollectable and subsequently written off. As at June 30, 2018, the allowance for doubtful accounts was \$43 thousand. Total bad debt expense recorded during the year ended June 30, 2018 was \$314 thousand, which is classified in "General and Administrative Expenses" on the Consolidated Statements of Comprehensive Income (Loss).

The Corporation had one customer that represented more than 10% of total revenue for the year ended June 30, 2018, comprising 20% of total revenue. For the year ended June 30, 2017, the Corporation had two customers that each individually represented more than 10% of total revenue for the year ended June 30, 2017, comprising 12% and 11% of total revenue.

Custody and prime brokerage risk

There are risks involved with dealing with a custodian or broker who settle trades. In certain circumstances, the securities or other assets deposited with the custodian or broker may be exposed to credit risk with respect to those parties. In addition, there may be practical or timing 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, 2018 and June 30, 2017, the following are the contractual maturities of financial liabilities, excluding interest payments:

**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	—

**June 30, 2017**

<i>(in thousands of USD)</i>	Carrying Amount	Contractual				
		Cash Flows	1 Year	2 years	3 to 5 years	More than 5 years
Bank indebtedness	\$ 56,443	\$ 56,595	\$ 56,595	\$ —	\$ —	\$ —
Accounts payable and accrued liabilities	22,560	22,560	22,560	—	—	—
Unrealized losses on open cash contracts	14,066	14,066	14,066	—	—	—
Long-term debt	14,454	15,000	3,000	5,000	7,000	—
Operating lease obligations	—	1,652	517	456	679	—

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, 2018, 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>	<u>Net asset (liability) exposure</u>
Canadian dollars	\$ 2,272

The following is a summary of the effect on Ceres' profit or loss for the year ended June 30, 2018 if the USD had become 5% stronger or weaker against the CAD as at June 30, 2018, 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>	<u>Increase (decrease) in net loss</u>	<u>Increase (decrease) in loss per share</u>
CAD 5% Stronger	\$ (91)	\$ 0.00
CAD 5% Weaker	\$ 82	\$ 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 cash and cash equivalents, margin deposits with brokers, accounts receivable, bank indebtedness, and account payable and accrued liabilities approximate their fair values as at June 30, 2018 due to the short-term nature of these instruments. The carrying value of long-term debt approximates fair value as at June 30, 2018 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, 2018 and June 30, 2017:

<b>June 30, 2018</b>						
<i>(in thousands of USD)</i>	Land	Buildings Silos & Elevators	Machinery & equipment	Office equipment & other assets	Construction in progress	Totals
<b>Cost</b>						
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>
<b>Accumulated depreciation</b>						
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>

<b>June 30, 2017</b>						
<i>(in thousands of USD)</i>	Land	Buildings Silos & Elevators	Machinery & equipment	Office equipment & other assets	Construction in progress	Totals
<b>Cost</b>						
June 30, 2016	\$ 22,709	\$ 79,579	\$ 23,450	\$ 3,479	\$ 3,266	\$ 132,483
Additions	—	—	—	—	10,478	10,478
Placed in service	4	10,937	2,246	75	(13,262)	—
Disposals	(790)	(8,412)	(1,322)	(51)	(126)	(10,701)
Impairments	—	—	—	—	—	—
Currency translation	13	203	51	1	2	270
June 30, 2017	<u>21,936</u>	<u>82,307</u>	<u>24,425</u>	<u>3,504</u>	<u>358</u>	<u>132,530</u>
<b>Accumulated depreciation</b>						
June 30, 2016	—	(10,601)	(1,648)	(1,417)	—	(13,666)
Depreciation	—	(2,791)	(1,646)	(144)	—	(4,581)
Disposals	—	2,406	596	49	—	3,051
Impairments	—	—	—	—	—	—
Currency translation	—	(23)	(31)	(6)	—	(60)
June 30, 2017	<u>—</u>	<u>(11,009)</u>	<u>(2,729)</u>	<u>(1,518)</u>	<u>—</u>	<u>(15,256)</u>
Carrying amount June 30, 2017	<u>\$ 21,936</u>	<u>\$ 71,298</u>	<u>\$ 21,696</u>	<u>\$ 1,986</u>	<u>\$ 358</u>	<u>\$ 117,274</u>

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Property, plant and equipment additions that have been accrued but not yet paid totaled \$3.0 million as at June 30, 2018 and \$3.9 million as at June 30, 2017.

Impairments

During the year ended June 30, 2018, the Corporation recorded an impairment related to its Calumet facility (Minneapolis, Minnesota), as the operations have ceased, and the cash flows associated with this specific asset could no longer support its carrying value. The impairment of \$236 thousand is classified within profit or loss as “Gain (loss) on property, plant and equipment”.

During the year ended June 30, 2017, the Corporation recorded an impairment loss related to its Buffalo, New York (Buffalo); and Duluth, Minnesota (Duluth Lakeport) facilities as the operations have ceased, and the cash flows associated with these specific assets could no longer support their carrying values. During the year ended June 30, 2017, Ceres recorded a loss of \$7.7 million on the impairment of Duluth Lakeport and Buffalo facilities.

Disposals

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. Both facilities were classified as “Assets held for sale” on the Consolidated Balance Sheet as at June 30, 2017, valued at nil, being the lesser of their carrying amount and fair value less costs to sell.

On April 30, 2018, the Corporation formed Savage Riverport, LLC and transferred the grain elevator and related assets at its Savage facility, which had net book value of \$9.4 million as at April 30, 2018, to the newly formed entity. In accordance with IFRS 11, the investment in Savage Riverport, LLC is a Joint Venture and is presented on the Consolidated Balance Sheet in “Investment in associates”. Refer to footnote 7 “Investment in associates” information regarding Savage Riverport, LLC.

**(10) BANK INDEBTEDNESS**

On December 28, 2017, the Corporation amended its uncommitted credit facility (the “Credit Facility”), which now expires on December 27, 2018. The maximum borrowings under the revolving facility are \$67.5 million. Borrowings bear an interest rate of overnight LIBOR plus 3.875% per annum, and interest is calculated and paid on a monthly basis. The Credit Facility is subject to borrowing base limitations. Amounts under the Credit Facility that remain undrawn are not subject to a commitment fee. The Credit Facility has certain covenants pertaining to the accounts of the Corporation, as at and for the year ended June 30, 2018, the Corporation was in compliance with all covenants.

As at June 30, 2018 and June 30, 2017, the Corporation had \$26.2 million and \$10.7 million in availability, respectively, on its revolving Credit Facility.

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As at June 30, 2018 and June 30, 2017, the carrying amount of bank indebtedness is summarized as follows:

<i>(in thousands of USD)</i>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Revolving credit facility	\$ 11,000	\$ 56,595
Unamortized financing costs	<u>(90)</u>	<u>(152)</u>
Bank indebtedness	<u>\$ 10,910</u>	<u>\$ 56,443</u>

**(11) LONG-TERM DEBT**

In accordance with the Corporation's senior secured term loan facility agreement with Macquarie Bank entered into on December 30, 2014 and subsequently amended, a principal payment of \$3.0 million was paid on December 29, 2017. On April 30, 2018, the Corporation paid an additional principal payment of \$2.0 million that was applied against the principal payment due on December 27, 2019. The next principal payment is payable on December 28, 2018 in the amount of \$5.0 million and the final principal payment is due on December 27, 2019 in the amount of \$5.0 million. The term loan has an interest rate of one-month LIBOR plus 5.25%.

Prior to that, the Corporation reduced the principal of its term loan to \$15.0 million by making the following payments. On December 29, 2016, the Corporation paid down the principal on its term loan facility agreement by the amount of \$1.6 million in accordance with the principal payment schedule included in the agreement and made an additional principal payment of \$7.0 million. On November 17, 2015, \$1.4 million was repaid of its outstanding term debt.

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

<i>(in thousands of USD)</i>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Total term debt	\$ 10,000	\$ 15,000
Less current portion of long-term debt	<u>(5,000)</u>	<u>(3,000)</u>
	5,000	12,000
Unamortized financing costs	<u>(339)</u>	<u>(546)</u>
Total long-term debt	<u>\$ 4,661</u>	<u>\$ 11,454</u>

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 (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, 2018 and 2017:

<i>(in thousands of USD)</i>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Realized and unrealized gains (losses) on foreign exchange	\$ 99	\$ (73)
Realized and unrealized gains (losses) on currency hedging transactions	30	(7)
Revaluation of portfolio investments	<u>(486)</u>	<u>(188)</u>
Finance income (loss)	<u>\$ (357)</u>	<u>\$ (268)</u>

**(13) INTEREST EXPENSE**

The following table presents interest expense for the years ended June 30, 2018 and 2017:

<i>(in thousands of USD)</i>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Interest on revolving credit facility	\$ (1,785)	\$ (1,822)
Interest on repurchase obligations	(37)	(297)
Interest on long-term debt	(892)	(1,164)
Interest on other financing obligations	(8)	—
Amortization of financing costs paid	<u>(450)</u>	<u>(596)</u>
Interest expense	<u>\$ (3,172)</u>	<u>\$ (3,879)</u>

**(14) EQUITY**

*(a) Authorized*

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

*(b) Normal Course Issuer Bids*

During the year ended June 30, 2018, the Corporation did not purchase any Shares under any Normal Course Issuer Bid.

During the year ended June 30, 2017, the Corporation purchased Shares under normal course issuer bids, the purpose of which was to provide Ceres with a mechanism to decrease the potential spread between the net asset value per Share and the market price of the common shares. The Corporation renewed the normal course issuer bid (“the 2016-2017 NCIB”) commencing on June 12, 2016. Using the facilities of the Toronto Stock Exchange (“TSX”) and in accordance with its rules and policies, Ceres intended to purchase up to a maximum of 1,595,765 of its Common Shares, representing approximately 10% of its unrestricted public float as of June 2, 2016, subject to a maximum aggregate purchase price of CAD \$5 million pursuant to restrictions under the Corporation’s Credit Facility. Ceres purchased up to a daily maximum of 2,119 Common Shares under the 2016-2017 NCIB, except for purchases made in accordance with the “block purchase” exception under applicable TSX rules and policies. The 2016-2017 NCIB concluded on June 11, 2017.

During the year ended June 30, 2017, the Corporation purchased a total of 257,582 common shares under the normal course issuer bid for aggregate cash consideration of \$1.1 million. The stated capital value of

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these repurchased Shares was \$1.9 million. The excess of the stated capital value of the repurchased common shares over the cost thereof, being \$826 thousand, was allocated to Deficit in the year ended June 30, 2017.

*(c) Common Share Purchase Warrants*

In connection with the completion of the Corporation's rights offering (the "Rights Offering"), on December 4, 2014, Ceres issued an aggregate of 2,083,334 warrants (the "Warrants") to the stand-by purchasers. The Warrants issued were conditional upon approval at the Corporation's annual general meeting ("AGM"), which was obtained at the AGM on August 7, 2015.

Furthermore, the Warrants were issued at a fixed exercise price of CAD \$5.84 and were each exercisable into one common share of the Corporation (a "Common Share"). The Warrants had an expiry date of December 4, 2016, being 24 months after issuance. In the event that the Warrants were exercised prior to the completion of a change of control of the Corporation, but after a transaction that will result in such a change of control has been publicly announced, in lieu of exercising the Warrants, the holders of Warrants could elect a cashless exercise to receive Common Shares equal to: the difference between the ten-day Volume-Weighted Average Price ("VWAP") of the Corporation's stock price and CAD \$5.84; multiplied by the number of Common Shares in respect of which the election was made; divided by the ten-day VWAP of the Corporation's stock price. If a Warrant holder exercised this option, there would be variability in the number of shares issued per Warrant.

In accordance with IFRS, a contract to issue a variable number of shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in the fair value recognized in profit or loss at each period end.

On November 30, 2016, 1,250,000 Warrants were exercised into 1,250,000 Common Shares at an exercise price of CAD \$5.84 for total consideration of \$5,425,492 (CAD \$7,300,000). On December 4, 2016, the remaining 833,334 Warrants expired, resulting in no warrant liability as at June 30, 2018 or June 30, 2017.

*(d) 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 maybe 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 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

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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, 2018, 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, 2018, the outstanding Tandem SARs are as follows:

	<b>Number of Options</b>	<b>Weighted- average exercise price (CAD)</b>	<b>Weighted- average remaining contractual term (years)</b>
Outstanding as at June 30, 2016	278,331	\$ 6.71	4.53
Granted	892,826	5.84	4.11
Exercised	—	—	
Expired/forfeited	(79,278)	6.75	
Outstanding as at June 30, 2017	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	<u>1,373,337</u>	<u>\$ 5.96</u>	<u>3.17</u>

At the grant date, the fair value of the options was estimated using the Black-Scholes pricing model with the following weighted-average assumptions: an average risk-free interest rate of 1.68%; expected volatility of 20.6%; dividend yield of nil; an average expected option life of 3.25 years; and average exercise price of CAD \$5.84. The weighted average grant date fair value of the Options granted during the year ended June 30, 2018, is CAD \$0.42 and CAD \$0.72 for the year ended June 30, 2017. As at June 30, 2018 and June 30, 2017, outstanding Options had exercise prices ranging from CAD \$5.84 to CAD \$6.75.

The total Option compensation cost included in general and administrative expenses for the year ended June 30, 2018, amounted to \$264 thousand and \$200 thousand for the year ended June 30, 2017, with the non-cash expense being accrued and classified within contributed surplus in the Consolidated Balance Sheet.

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(e) Issued and outstanding as at June 30, 2018 and June 30, 2017

The following is a summary of the changes in the Common shares for the year ended June 30, 2018 and year ended June 30, 2017:

	<b><u>Common shares</u></b>	
	<b><u>Number of Shares</u></b>	<b><u>Amount</u></b> <i>(thousands of USD)</i>
Balances, June 30, 2016	26,889,055	\$ 199,606
Redemption of deferred share units	17,333	70
Repurchase under normal course issuer bid	(257,582)	(1,882)
Exercise of warrants	1,250,000	5,425
Directors' remuneration	10,790	44
	<hr/>	<hr/>
Balances, June 30, 2017	27,909,596	203,263
Redemption of deferred share units	22,326	82
Directors' remuneration	3,069	13
	<hr/>	<hr/>
Balances, June 30, 2018	<u>27,934,991</u>	<u>\$ 203,358</u>

As at June 30, 2018 and June 30, 2017, directors and officers of the Corporation beneficially own, directly or indirectly, or exercise control or direction over 43.7% and 43.6%, respectively, of the outstanding Common shares of the Corporation.

**(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).

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. DSUs outstanding as at a reporting period-end are revalued at the fair market value as at that period and changes in the fair market value are recognized to Directors' fees in the period in which the changes occur.

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

	<b>Number of DSUs</b>	<b>Amount</b> <i>(thousands of USD)</i>
Outstanding as at June 30, 2016	142,717	\$ 617
Issuance of Deferred Share Units	58,201	231
Redemption of Deferred Share Units	(17,333)	(70)
Fair value adjustment of Deferred Share Units	—	(7)
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	<u>252,503</u>	<u>\$ 801</u>

**(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:

	<b>Twelve months ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<i>(in thousands of USD)</i>		
Salary and short-term employee/director benefits	\$ 1,090	\$ 1,091
Share-based compensation	233	417
	<u>\$ 1,323</u>	<u>\$ 1,508</u>

*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 \$13 thousand is included in total revenue in the Consolidated Statements of Net and Comprehensive Income (Loss) for the fiscal year 2018. Related party expenses recorded in cost of sales are \$240 thousand for the fiscal year 2018. As at June 30, 2018, the accounts receivable, due from Savage Riverport, LLC totaled \$29 thousand and accounts payable, due to Savage Riverport, LLC totaled \$36 thousand.

**(17) SUBSEQUENT ACQUISITION**

On July 11, 2018, the Corporation acquired 100% of the equity of Natures’ Organic Grist, LLC (“NOG”), a supplier of organic and ancient grains (including cereal grains, pulses and seeds), milled flours, and feed products, for consideration as follows:

- Cash consideration of \$2.8 million paid at closing, with an additional payment of \$638 thousand paid one month following the close for working capital acquired; and



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- A performance based earn-out of up to \$3.2 million based on total NOG performance over a three-year period following closing which is fair valued at \$1.3 million.

<i>(in thousands of USD)</i>	<u>July 11, 2018</u>
Cash consideration	\$ 2,800
Working capital	638
Fair value of contingent consideration	<u>1,330</u>
Total consideration	<u>\$ 4,768</u>

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

<i>(in thousands of USD)</i>	<u>Nature's Organic Grist, LLC</u>
Cash	\$ 936
Accounts receivable	274
Inventory	511
Other	2
Intangible assets	<u>4,082</u>
Total assets acquired	<u>5,805</u>
Accounts payable and accrued liabilities	<u>1,037</u>
Total liabilities assumed	<u>1,037</u>
Net assets acquired	<u>\$ 4,768</u>

The purchase price allocation has not been finalized. The Corporation will finalize the purchase price allocation upon making a final determination of the fair value of the assets acquired and the liabilities assumed. Any future adjustments will be recorded as adjustments to the purchase price allocation.

## (18) 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)*

	<b>For the twelve-months ended June 30, 2018</b>	<b>June 30, 2017</b>
Income (loss) before income and taxes and share of net income (loss) of associates:		
Canada	\$ (3,352)	\$ (5,342)
United States of America	2,976	(8,069)
	(376)	(13,411)
Combined statutory Canadian federal and Ontario corporate income tax rate.	26.5%	26.5%
Provisions for income taxes recoverable using statutory rate	(100)	(3,554)
Adjusted for the income tax effect of:		
Difference in tax rates applicable to subsidiaries	157	(964)
U.S. state taxes, net of U.S. federal benefit	18	4
Non-deductible portion of unrealized losses (non-taxable portion of unrealized gains) on investments	(45)	145
Changes in unrecognized temporary difference on deferred income tax assets, net of deferred tax liabilities	(36)	6,126
Foreign exchange and other differences	(32)	(1,753)
	62	3,558
<b>Income tax expense (recovered)</b>	<b>\$ (38)</b>	<b>\$ 4</b>

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The components of the provision for income taxes for the years ended June 30, 2018 and 2017 are as follows:

*(In thousands of USD)*

	<b>For the twelve-months ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2018</b>	<b>2017</b>
Canada		
Current	\$ -	\$ -
Deferred	-	-
	-	-
United States of America - Federal		
Current	113	-
Deferred	(172)	-
	(59)	-
United States of America - State		
Current	21	4
Deferred	-	-
	21	4
<b>Income tax expense (recovered)</b>	<b>\$ (38)</b>	<b>\$ 4</b>

*(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:

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(In thousands of USD)

	<b>For the twelve-months ended June 30, 2018</b>	<b>June 30, 2017</b>
Deferred tax assets:		
Non-capital and net operating losses carried-forward	\$ 29,191	\$ 41,125
Allowable capital losses carried forward	960	974
Deductible portion of unrealized depreciation of associates	730	679
Share issuance costs	89	205
Other temporary deductible differences, net of temporary taxable differences	533	-
	31,503	42,983
Deferred tax liabilities:		
Property, plant and equipment	(9,003)	(14,340)
Taxable portion of unrealized depreciation of associates	(1,323)	(423)
Other temporary taxable differences, net of temporary deductible differences	-	(387)
	(10,326)	(15,150)
Unrecognized deferred tax assets	(21,005)	(27,833)
Non-current deferred tax asset, net	\$ 172	\$ -

(c) Tax losses carried forward

(i) Operations in Canada

As at June 30, 2018, the Corporation has accumulated non-capital losses in the amount of CAD \$62.9 million relating to its operations in Canada. The non-capital losses are being carried forward and, unless utilized, will expire in the following taxation years:

(in thousands of CAD)

<b>Year of expiry</b>	<b>Amount in CAD</b>
2031	\$ 401
2032	7,335
2033	6,549
2034	13,586
2035	8,198
2036	10,777
2037	7,008
2038	9,043
	\$ 62,897

As at June 30, 2018, Ceres has accumulated capital losses totaling CAD \$9.5 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

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As at June 30, 2018, 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	\$ -	\$ 5,249	\$ -	\$ -	\$ -
2026	-	1,724	-	-	-
2027	-	6,335	-	-	1,279
2028	-	9,210	-	-	1,764
2029	-	-	-	-	-
2030	9,597	9,847	5,704	471	-
2031	3,686	2,188	3,169	201	-
2032	8,570	2,072	9,875	124	-
2033	12,773	-	13,817	68	-
2034	-	-	-	-	-
2035	-	-	-	121	311
2036	26,591	-	617	91	111
2037	5,310	-	6	-	-
2038	3,618	-	-	40	41
	<u>\$ 70,145</u>	<u>\$ 36,625</u>	<u>\$ 33,188</u>	<u>\$ 1,116</u>	<u>\$ 3,506</u>

## (19) CONTINGENT LIABILITIES

The Corporation is involved in various legal claims and legal notices arising in the ordinary course of business. The Corporation believes it has adequately assessed each claim, and the necessity of a provision for such claims. As at June 30, 2018 and June 30, 2017, the Corporation has no provision for any of these legal claims.

During the year ended March 31, 2014, Ceres terminated its arrangements and ongoing discussions with the Scoular Company (“Scoular”) as a potential development partner with respect to the development and construction of a grain facility at Northgate Logistics Centre (“NLC”). Since the termination of discussions, Scoular filed a breach of contract claim for injunctive relief and unspecified damages. The Corporation intends to vigorously defend the lawsuit. The recovery and/or reimbursement of such amounts, if any, will be subject to resolution of the claim described below.

As of the date hereof, the Corporation, based on the advice of its litigation counsel, does not believe that the claims alleged by Scoular have any legal merit, and therefore, the Corporation intends to vigorously defend the lawsuit. Prior to the termination of its relationship with Scoular, the counterparty paid CAD \$3,899,146 in costs related to the project. The Corporation does not believe that the counterparty is entitled to recovery of any of these costs based on the legal relationship that existed at the time and based on the claims alleged in the counterparty’s complaint. On January 20, 2017, the court heard oral argument on the Corporation’s motion for summary judgment, which seeks dismissal of all claims asserted by Scoular. On August 16, 2017, the court denied the Corporation’s motion and scheduled a trial by jury on October 9, 2018.

The outcome of this complaint is difficult to assess or quantify. The plaintiff may seek recovery of large or indeterminate amounts, and the magnitude of the potential loss may remain unknown for substantial periods

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of time. The cost to defend this complaint may be significant. In addition, this complaint, if decided adversely to the Corporation or settled by the Corporation, may result in a liability material to the Corporation's financial statements as a whole or may materially and adversely affect the Corporation's business, financial position, cash flow and/or results of operations.

# CORPORATE INFORMATION

## SENIOR MANAGEMENT

### Robert Day

President and  
Chief Executive Officer

### Kyle Egbert

Vice President and  
Chief Financial Officer

### John Carroll

Vice President Trading  
and Risk Management

### Glen Goldman

Vice President, Corporate Counsel  
and Corporate Secretary

### Sarah Blomquist

Director, Human Resources

## DIRECTORS

### Douglas Speers

Independent Director,  
Chairman, and Member of the  
Human Resources, Safety and  
Environment Committee

### Robert Day

Director and Officer,  
Member of Nominating,  
Government, Risk and  
Ethics Committee

### Harvey Joel

Independent Director,  
Chair of the Human Resources  
Safety and Environment Committee,  
Member of the Audit and  
Finance Committee

### Gary Mize

Independent Director,  
Chair of Audit and Finance Committee,  
Chair of the Nominating, Governance,  
Risk and Ethics Committee

### James Vanasek

Member of Audit and  
Finance Committee

## CORPORATE OFFICE

1660 S. Highway 100  
Suite 350  
St. Louis Park MN  
55416 USA

## REGISTERED OFFICE

155 Wellington West, 40th floor  
Toronto ON M5V 3J7

## TRANSFER AGENT

AST Trust Company (Canada)

## AUDITORS

Wolrige Mahon Collins Barrow LLP  
400 Burrard Street, Ninth Floor  
Vancouver BC V6C 3B7

## INVESTOR CONTACT

### Heidi Christensen Brown

NATIONAL Equicom  
T: 416 848 1389  
E: [hchristensenbrown@national.ca](mailto:hchristensenbrown@national.ca)

## AGM

### Ceres Global Ag Corp.

#### Annual General Meeting

November 14 at 11:00 am EST  
Blake, Cassels & Graydon LLP  
199 Bay Street, Suite 4000  
Commerce Court West  
Toronto, ON M5L 1A9

