

A FOUNDATION FOR THE FUTURE



PEOPLE / PARTNERSHIPS / PRODUCTS

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Lloyd Affleck
Chairman of the Board

I would like to start off this letter by taking the opportunity to thank the current Board of Directors for their confidence in appointing me to the position of Chairman of the Board for CANTERRA SEEDS.

Next, I would like to thank Mr. Ken Nelson for his 15 years of dedicated service to the Company. Ken resigned his position as Chairman this year to pursue new opportunities in the seed and biotech industry. He led CANTERRA SEEDS, never deviating from the original vision, to be a leading, independent seed company that provides its shareholders with leading genetics and profitable business opportunities. He did this while not losing sight of the fact that the Company must be profitable in order to be successful. Ken's loyal service and internal integrity helped lead CANTERRA SEEDS to be the strong Company that it is today.

As your newly appointed Chairman I present the following annual report, in which the Company shows a loss of \$2.17 million. This

loss is attributed to lower than expected canola sales, combined with a significant canola inventory write-down. The loss experienced from these two factors is further intensified by the change in CANTERRA SEEDS' year-end. The following report reflects a nine-month year, and the period of October 1 to December 31, a high canola sales period for the Company, will become the first quarter of the next fiscal year.

The agriculture community of Western Canada experienced unprecedented events throughout the 2010 production season. My own experience, from a typically drought prone area of Saskatchewan, was similar to many others. We received 25–30 inches of rain, three times the normal precipitation. Planting was still going on in late June, and only 80 percent of the intended acreage was sown. Never before has the industry experienced unplanted acres to this level; over ten million acres were never seeded. The majority of these acres were in the canola growing area of Canada. As a direct result, canola sales for CANTERRA SEEDS fell well behind budget.

The shortcoming in sales, coupled with a sizeable canola inventory position, leaves

MESSAGE FROM THE CHAIRMAN

the company with a canola inventory of 70,000 bags. A large portion of this seed no longer meets the required specifications to be sold as certified seed. CANTERRA SEEDS has made the necessary decision to dispose of 17,000 bags of this inventory, and a significant inventory write-down is reflected within this annual report. The Board of Directors worked closely with management throughout this process and supports the decisions made to manage this inventory.

Despite the challenges faced in 2010, CANTERRA SEEDS has a promising future and is entering a new phase of growth. Over the last 15 years the Company has grown from a fledgling seed company to a strong, corporately governed organization.

As the Company has developed, so too has the Board of Directors. In addition

to my appointment to Chairman, other changes to the Board include the addition of Gayle MacDonald of G-Mac's AgTeam and Jason Gould of Ceres Global Ag Corp. Gayle brings another independent crop supply retailer perspective, while Jason contributes his financial knowledge and leadership. It is also important to note that the Board of Directors has appointed a Governance Committee that is currently in the process of an extensive review of the way in which the Board should be governed. Any significant changes arising from this review will be communicated to all shareholders in a timely manner.

Mr. Dick Emerson of Riverland Agriculture, Ltd., also left the Board this year when Ceres Global Ag Corp., a Canadian organization focused on investing in strong agriculture based growth companies, purchased Riverland in April, 2010. Dick brought his knowledge of grain storage and handling, particularly of malt barley, and we thank him for his contributions. Riverland maintains a solid presence on the Board, holding two positions. Don Grambsch has served on the Board

since 2008, and Jason Gould has been appointed to replace Dick Emerson. Riverland's dedication to the Company, and its ability to bring CANTERRA SEEDS' products through to end-users, will be a key strategic advantage going forward.

CANTERRA SEEDS has built a very strong senior management team over the last few years that the Board of Directors has full confidence in. Under the direction of David Hansen, the entire staff team is working together towards common goals.

It is without a doubt that the success of CANTERRA SEEDS will be built on the back of a strong portfolio. As new varieties and hybrids are added to the canola line-up, CANTERRA SEEDS is again a leader in the canola marketplace. This can be seen with the success of the 1900 Series. The depth of the pedigreed portfolio is attributed to the efforts of the

Research and Product Development team as they screen material from breeding partners in Canada and around the world.

Looking ahead, the greatest advantage to CANTERRA SEEDS will be the assets of its shareholders. As the Company attracts new partners, the ability to leverage these assets will provide valuable opportunities. In addition, working directly with end-users, CANTERRA SEEDS is well positioned to provide identity preserved (IP) programs through its shareholders and their customers. The Company will be challenged to provide traits in products that meet the specific requirements of these end-users. CANTERRA SEEDS' strong relationships with its breeding partners will help deliver this.

On behalf of the Board of Directors, I assure you that we are fully committed to the founding vision of the company and are looking forward to the challenges and opportunities that lie ahead for CANTERRA SEEDS.



MESSAGE FROM THE PRESIDENT AND C.E.O.

2010 will long be remembered as the year many farmers and crop supply companies in Western Canada were faced with overwhelming odds. Millions of acres of cropland were never seeded. In addition, acres seeded struggled through some of the most difficult growing and harvesting conditions ever encountered. CANTERRA SEEDS also faced challenges in 2010, but like our farmer customers, this year has shown us that while we are often challenged, the strong foundation we have built allows us to continue on.

Our 2010 annual report represents the period of January 1, 2010 to September 30, 2010. This nine-month financial period is a result of the change made to our fiscal year and does not include the sales, expenses and revenues generated in the last quarter of the calendar year. Instead, these balances will become the first quarter of 2010/2011 fiscal year. The change to our fiscal year, which will now be October 1 to September 30, was made as a means to improve the business forecasting and planning processes for the Company.

CANTERRA SEEDS experienced challenges in the first nine months of 2010. Canola seed sales were significantly below plan due largely to environmental factors in Saskatchewan and Manitoba, putting us approximately \$700k below our budgeted canola revenue. On the other hand, our pedigree business was well ahead of plan due to the success of our wheat varieties Glenn and AC Infinity, barley varieties led by CDC Coalition, CDC PolarStar, CDC Yorkton and Stellar-ND, pea varieties including AC

Thunderbird and AC Agassiz and our oat variety Triactor. The net result is CANTERRA SEEDS ended up \$398k below the gross profit budget of \$2,410k.

In direct response to the shortcoming in gross profit, costs were managed accordingly in the nine-month period and were reduced by more than 13.5% for a saving of \$477k against a budget of \$3,488k.

Another major challenge that CANTERRA SEEDS has been managing is inventory of approximately 70,000 bags of canola seed, most of which is considered mature. This includes seed that does not meet the appropriate quality requirements, and hybrids that no longer have wide market acceptance.

The buildup of canola seed inventory is the result of four significant factors that took place in the Company. These four factors are a lack of hybrid seed experience, the inherent difficulty in predicting seed yields of new hybrid systems, hybrids that underperform at the field level compared to trial data and overly aggressive sales forecasts. These four factors have all been addressed at CANTERRA SEEDS and new processes and procedures are in place to help mitigate the potential of this inventory build-up happening again in the future.

This year, management has taken the necessary decision to write-down 17,000 bags of this seed. The inventory consists of hybrids that are not certified for sale due to loss of germination. This write-down is comprised of both

bare and treated seed stock. The impact of the inventory write-down, and the operations loss budgeted for the first nine months of the year, combines for a net loss for the period of \$2,172k.

In addition to the inventory that has been written-down, the 2011 budget projects 24,000 bags of mature product will be sold, leaving a balance of 29,000 bags for sale in 2012. It is important to note the sales budget for 2010/2011 is based on a conservative estimate of 17 million canola acres. A surge in canola acres, along with aggressive sales and marketing programs, may see this number exceeded.

Despite the challenges CANTERRA SEEDS has been managing, and despite the significant loss that is reported this year, the future of CANTERRA SEEDS remains very bright. We have built a solid foundation for the continued development of our seed business and we are making excellent progress in all areas.

Our product portfolio has matured as products from breeding institutions from the public and private sector, domestically and internationally have been secured. Our goal is to maintain a full and complete product portfolio to meet the needs of our shareholders, our farmer customers, and our end-use partners.

The canola business is evolving as planned based on the solid relationships we have with our breeding and technology providers, distributors, retailers and

shareholders. The goal we set in 2010 to double the size of our canola business in the next five years is very realistic and attainable. Our early success with the 1900 Series is evidence of the great progress we are making. The pedigree business also has many facets and each is gaining importance. In 2010, we experienced a record year as the result of our solid portfolio. Gross profit for this segment surpassed the \$1,200k mark.

As the Company matures, our positive reputation as an industry collaborator has aided the formation of partnerships with numerous companies. These partnerships will take CANTERRA SEEDS to the next level in our evolution.

Work with food ingredient companies and end-users has aided the development of programs to meet their very specific product quality requirements. This includes varieties of wheat, durum, food barley and milling oats. This will translate to identity preserved (IP) and closed loop production programs that demand certified seed.

The malting and brewing industry on both sides of the Canadian border is looking to CANTERRA SEEDS to help facilitate their seed requirements. In addition, the industry is beginning to properly appreciate and understand the value of Certified seed. This has the potential to redefine how the malting and brewing industry functions here in Canada and will bring great opportunity to our shareholders.

CANTERRA SEEDS is working to ensure our shareholders have complete access to seed enhancement technology products and systems. Developers of these technologies understand the value CANTERRA SEEDS brings and demonstrate their willingness to partner with us.

As life science companies invest in cereal breeding, the potential for the wheat and barley business to change is unmistakable. New traits, genetics and partnerships between the public and private sector business models will emerge over time. How exactly this will play out is difficult to determine; however, CANTERRA SEEDS will be properly aligned and ready when opportunity is presented.

In relative terms, CANTERRA SEEDS is a young company; February 6, 2011 marks our 15th anniversary. Each member of our team of strong professionals, along with our Board of Directors, brings a unique skill set that when combined together, makes CANTERRA SEEDS the strongest it has ever been. Through these years we have established this Company as a reliable provider of superior genetics. Our foundation for the future is strong, as we access new market opportunities, proactively demonstrate the value of Certified seed, and create channels for current and future products, for the benefit of shareholders, our stakeholders, our partners and CANTERRA SEEDS.



David Hansen
President and CEO



MARKETING OVERVIEW

In the world of marketing the ability to do more with less can be very difficult, especially when your audience spans the entire Prairie landscape. However, when financial conditions deem that expenses must be cut, it is a challenge that becomes critical.

As a company, CANTERRA SEEDS strives to optimize marketing dollars by closely following market trends and investing in higher return, highly measurable tactics. These tactics were central to CANTERRA SEEDS' marketing efforts in 2010 and included:

Strategic Use of Online Advertising

In 2010 it is difficult to classify grower Internet usage as a trend, as the majority of farmers are now "connected." As high speed Internet availability, smart phone adoption and technical savvy continue to increase amongst growers, the ability to use the Internet as a means of reaching and communicating to our audience continues to improve. In addition, by using well-established analytics, online advertising provides the novel ability to fully measure the success of our investments by determining how often the audience sees and interacts with our message. In the era of return on investment, this measurability is key.

Direct-to-Customer Communications

The investment in our website and e-mail mining campaigns has continued to pay off as CANTERRA SEEDS now benefits from the ability to communicate to our audience outside of the paid mediums. Through e-blasts and our website, we can now craft and deliver our message to a captive audience while again measuring its uptake and overall return.

Limiting Traditional Media

While print and radio advertising are indeed proven resources for delivering our promotional messages, the cost-to-benefit ratio of these mediums has dictated that we re-evaluate their continued usage. In 2010, CANTERRA SEEDS invested fewer dollars in these mediums, using them as part of fully integrated campaigns that relied on print and radio to drive our audience through to the more engaging and measurable online mediums.

As we move forward through 2011, CANTERRA SEEDS will continue to pursue cost-effective marketing solutions. If our successes achieved to date are any indication, this approach will continue to allow us to make smart use of our marketing dollars.





L-R: David Hansen, Ron Brand,
Gerry Cantin, Erin Armstrong
and Brent Derkatch

SENIOR MANAGEMENT

David Hansen

President & Chief Executive Officer

David Hansen joined CANTERRA SEEDS as Chief Executive Officer in October of 2009, and was shortly thereafter appointed President. David is an industry veteran with experience working in Canada and internationally. His background uniquely prepares him to lead CANTERRA SEEDS' efforts to be a leader in the pedigreed seed industry.

Prior to joining CANTERRA SEEDS, David worked as the North Asia Pacific Regional Manager for Agrotain International, and spent five years in China. Four of those years he spent as the General Manager for DPL China Pte Limited, and one year with Monsanto Far East, managing the cottonseed business. His over 30 years of seed and agribusiness experience also include the position of Canadian Business Manager for Agrotain International, and numerous sales and marketing positions with Advanta Seeds and its predecessors Zeneca Seeds, ICI Seeds, and Garst Seeds.

Ron Brand, P.Ag

Director, Sales and Marketing

Ron Brand is Director, Sales and Marketing, and leads CANTERRA SEEDS' activities in canola and pedigreed seed sales, marketing and branding and internal and external communications.

Prior to joining CANTERRA SEEDS in 2006, Ron managed the Grain Logistics team for United Grain Growers and Agricore United. Earlier, he worked in various sales

and marketing roles with Imperial Oil and United Grain Growers. Ron began his career in agriculture managing a retail fuel and fertilizer business in the Saskatoon area.

Ron holds a Bachelor of Science in Agriculture from the University of Saskatchewan and maintains his Professional Agrologist designation. He sits on the Board of Directors of the Canadian Association of Agri-Retailers, and is a member of the External Relations Committee for the Canadian Seed Trade Association (CSTA).

Gerry Cantin, CA

Chief Financial Officer

Gerry Cantin is CANTERRA SEEDS' Chief Financial Officer. He has over 20 years of senior financial management experience in the agriculture industry. Prior to joining CANTERRA SEEDS in 2006, Gerry worked with the Landmark Feeds Group. He also worked as the Controller for the Terminal Division of United Grain Growers Limited.

Gerry holds a Bachelor of Arts and a Bachelor of Commerce from the University of Manitoba. He received his Chartered Accountant designation from the CA firm of Clarkson Gordon, now called Ernst & Young.

Erin Armstrong, PhD

Director, Research and Product Development

Erin Armstrong is Director, Research and Product Development, and is responsible for the strategic aspects of breeder and end-user relations, breeder agreements, variety agreements for pedigreed varieties, and quality evaluation strategy.

Erin joined CANTERRA SEEDS in 2008 following her tenure as President and CEO for the Brewing and Malting Barley Research Institute (BMBRI). Prior to BMBRI, Erin worked with Canada Malting Co., Ltd. and General Mills, Inc.

Erin holds a Bachelor of Science in Agriculture from the University of Manitoba and her PhD in Biochemistry from the University of Ottawa. Currently she is the secretary of the Intellectual Property Committee for the CSTA, the CANTERRA SEEDS representative to the BMBRI, and a member of the quality evaluation team for the Prairie Recommending Committee for oats and barley.

Brent Derkatch

Director, Operations and Business Development

Brent joined CANTERRA SEEDS in 2001, initially as Production Manager. Today, as Director, Operations and Business Development, Brent is responsible for all production and manufacturing activities, as well as market development efforts with end-users, and variety specific production opportunities.

Prior to joining CANTERRA SEEDS Brent worked at Brett Young Seeds where he held the position of Production Agronomist and Eastern North American Sales Manager.

Brent graduated from the Olds College Seed and Grain Technology Program, and holds a Certificate in Management from the University of Manitoba. Brent is currently on the Board of Directors for CSTA and the Canadian Plant Technology Agency.

BOARD OF DIRECTORS

Lloyd Affleck

Chairman of the Board

Lloyd was appointed to the role of Chairman of the Board on November 2010. Prior to this, he held the position of Vice-Chairman of the Board since March 2009. Lloyd is a pedigreed seed farmer from Beechy, SK, and was one of the first to become a CANTERRA SEEDS shareholder in 1998. He joined the Board of CANTERRA SEEDS in 2005. Lloyd served as Vice Chairman and as Chairman for Pulse Canada. In addition, he worked as a Director with the Saskatchewan Pulse Crop Development Board and as advisor to both the development of the Special Crop Act Initiative and the SCRIP program.

Jim Wilson

Vice Chairman

Jim and his wife Norleen operate a grain farm and seed processing and marketing plant at Darlingford, MB. Jim received his Chartered Accountant designation in 1974 and worked in public practice until 1993. In 2007, Jim received the designation of Chartered Director from the Directors College.

Jim joined the CANTERRA SEEDS Board of Directors in 2010. Previously, Jim has served as Director and Chair of Agricore United, Chair of the Canada Grains Council, and on the Board of the Canadian Agri-Food Trade Alliance, the Cereal Grains Value Chain Roundtable and the National Safety Nets Advisory Committee. Jim is also involved in the community, serving on the local Canadian Foodgrains Bank project committee, and having served on the Board of the Morden District General Hospital

Greg Andrukow

Greg joined the CANTERRA SEEDS Board of Directors in 2004, after becoming a shareholder in 2002. Greg and his wife Esther own and operate Andrukow Group Solutions Inc., a series of independent agriculture retailers in east-central Alberta. He is also involved in a farming operation with his brother Al, near Viking, AB. Presently they farm 2,500 acres, including pedigreed seed. Greg is on the Board of Directors and is one of the founders of Grow Community of Independents.

Joe Dales

Joe joined the CANTERRA SEEDS Board of Directors in 2003. He has 23 years of agriculture industry experience working with companies such as Pfizer, Cyanamid Crop Protection, First Line Seeds, and NK Syngenta Seeds. Joe is the founder of Farms.com and leads their business strategy, marketing and development activities.

Joe is also very active in several agri-food industry associations such as the Canadian Agri-Marketing Association, the US National Agri-Marketing Association, and is a member of both the Agri-food Council and Renewable Energy Council in London, ON, where he lives. Joe is past Treasurer and Board Member of the Ontario Pork Industry Council, and past Board Member of Techalliance and Internetworking Technology Group.





L-R: Jason Gould, Jim Wilson,
Gayle MacDonald, Greg Andrukow,
Don Grambsch, Lloyd Affleck,
Joe Dales and Shaun Haney

BOARD OF DIRECTORS

Jason Gould

Jason joined the CANTERRA SEEDS Board of Directors as an appointed representative of Riverland Agriculture in 2010. He is the Chief Financial Officer of Ceres Global Ag Corp. and lives in Toronto, ON. Jason has been with Ceres since he took the role of Director of Agriculture Projects in 2007. Prior to this time, Jason was at Maple Leaf Foods Inc. for approximately ten years. Jason held roles and responsibilities including Director of Mergers & Acquisitions, Director of Business Analysis, Director of Customer Marketing at Maple Leaf Pork, Director of Business Planning at Maple Leaf Pork, and Manager of Corporate Development. Prior to joining Maple Leaf Foods, Jason worked with Arthur Anderson Co. and KPMG. Jason received a Bachelor of Arts from the University of Western Ontario and is a Chartered Accountant.

Don Grambsch

Don joined the CANTERRA SEEDS Board of Directors in November 2008 after CANTERRA SEEDS' shareholders approved Riverland Agriculture, Ltd.'s equity investment in the Company.

Don has been in the commodity business for more than 30 years, working 28 years with ConAgra Foods. In 2007 he joined Whitebox Commodities Holdings Corp. In December of 2009, Don was promoted to President of Riverland Agriculture, now a wholly owned subsidiary of Ceres Global Ag, a public fund listed on the TSE. Don currently lives in Vancouver, Washington.

Shaun Haney

Shaun joined the CANTERRA SEEDS Board of Directors in March 2009. Shaun and his family reside in Picture Butte, AB where Shaun is actively involved in his family business, Haney Farms. He started an agriculture blog and e-newsletter, www.realagriculture.com, and has numerous followers across North America. Shaun also is very involved with his community, sitting on the Board of Directors with the Lethbridge Hurricanes.

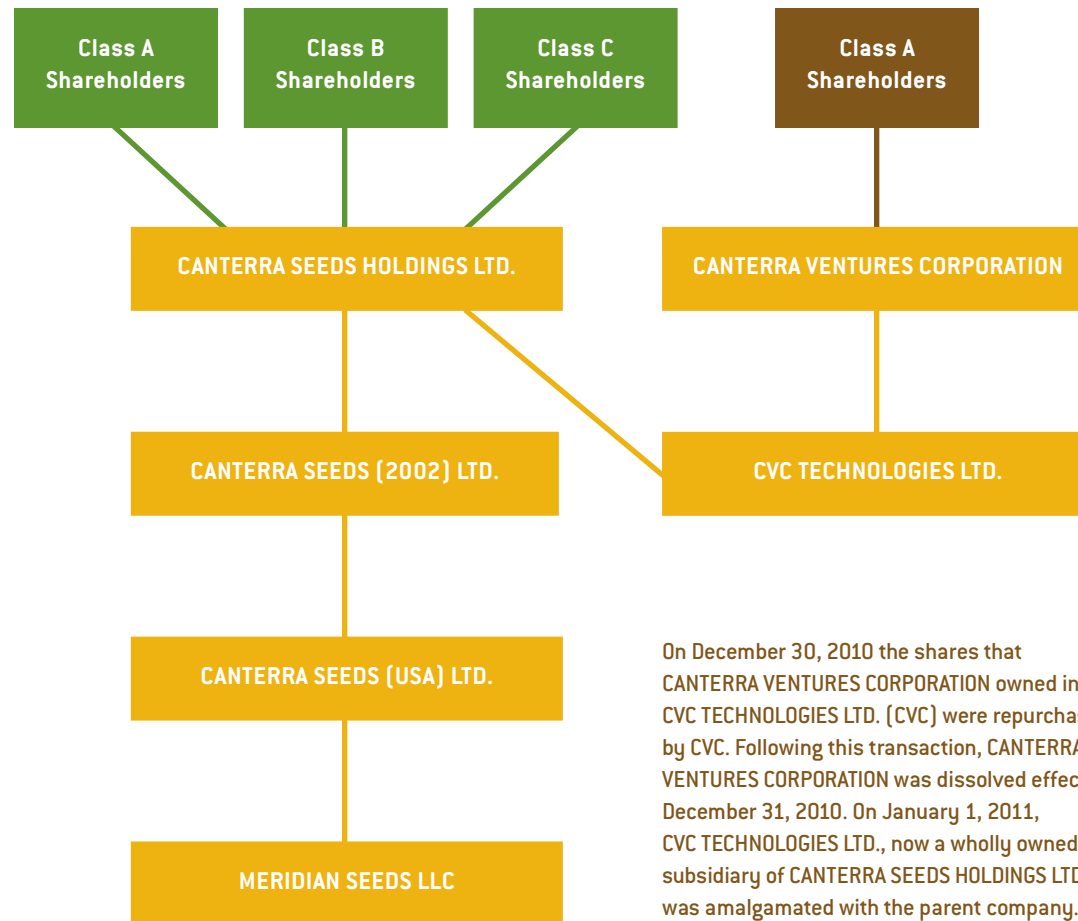
Gayle MacDonald

Gayle joined the CANTERRA SEEDS Board of Directors in October 2010. She lives in Kindersley, Saskatchewan where she and her husband Garth own and operate G-Mac's Ag Team Inc. G-Mac's is a full-service agricultural crop input retail business with six locations throughout West-Central Saskatchewan. Presently, Gayle serves on the SaskTel Board of Directors and is a member of the Kindersley Business Focus Group.

COMPANIES HELD

by Canterra Seeds Holdings Ltd.

CANTERRA SEEDS HOLDINGS LTD. was established in 2002 to facilitate separate investment in CANTERRA SEEDS (2002) LTD. and CVC Technologies Ltd. (CVC). CANTERRA SEEDS (2002) LTD. is the operating seed company. CVC is an information technology company that develops software for the seed industry. Meridian Seeds LLC is a US seed joint venture in which CANTERRA SEEDS (USA) LTD. is a member.



On December 30, 2010 the shares that CANTERRA VENTURES CORPORATION owned in CVC TECHNOLOGIES LTD. (CVC) were repurchased by CVC. Following this transaction, CANTERRA VENTURES CORPORATION was dissolved effective December 31, 2010. On January 1, 2011, CVC TECHNOLOGIES LTD., now a wholly owned subsidiary of CANTERRA SEEDS HOLDINGS LTD. was amalgamated with the parent company.

CANTERRA SEEDS HOLDINGS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

The following Management's Discussion and Analysis (MD&A) is intended to supplement the financial statements by explaining the Company's operating results and financial position for the 2010 nine-month fiscal period as compared to the 12-month period in 2009. In addition, the MD&A is meant to provide the reader with an outlook on future trends and risks or other factors that affect or may affect the business operations, to assist the reader in understanding the past results, as well as understanding the impact on the future. The following MD&A was prepared based upon information available up until December 3, 2010 and should be read in conjunction with the accompanying audited consolidated financial statements that have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The financial information has been reviewed by the Company's Audit Committee and approved by the Board of Directors. All amounts reported are in Canadian currency.

The Business

CANTERRA SEEDS is a recognized leader in the pedigree agriculture seed industry. Headquartered in Winnipeg, Manitoba, CANTERRA SEEDS is committed to developing, acquiring, producing, marketing, and selling seed varieties that meet market needs to its customers throughout Western Canada and the Great Northern Plains of the United States.

Results of Operations

Highlights of the 2010 fiscal operating results:

- In order to better synchronize the Company's financial reporting and business planning with its natural business cycle, the Company changed its year-end in 2010. The current year results are for the nine-month period ending September 30 and they are being compared with the results of the 12-month period ending December 31, 2009.
 - Sales are 66.5% lower than in 2009.
 - Gross profit decreased by 42.2% compared to the prior year and the gross profit percentage increased from 24.3% to 42.0%.
 - The Company determined that it owned canola inventory, which no longer met the required specifications of the Canada Seeds Act. This caused a write-down of almost \$1.62 million during the period, which is \$1.42 million higher than in 2009.
 - The operating, general and administrative expenses decreased by 25.7% from 2009.
 - The net loss of \$2,172,000 increased by \$1,929,000 compared to 2009 and reduced shareholders' equity of CANTERRA SEEDS.
- The net loss per share for the nine months ended September 30th is \$0.41 per share in 2010 as compared to a net loss of \$0.05 per share in 2009.
 - Cash flow decreased by \$421,000 from December 31, 2009 to September 30, 2010.
 - The total assets of the Company decreased to \$7.6 million in 2010 from \$10.1 million in 2009.

Outstanding Share Data

Issued securities as of December 3, 2010:

Issued	Book Value
5,285,803 Class A common shares	\$ 5,120,228
2,112,000 Class B series 1 shares	462,001
3,324,000 Class C series 1 shares	1

Trading History

CANTERRA SEEDS HOLDINGS LTD. is a Reporting Issuer. Shares of the Company can either be traded privately between two parties, with or without using the assistance of a broker, or by utilizing Union Securities, which is located in both Regina and Saskatoon. In 2010, Union Securities completed the sale of 4,800 Class A Shares and 12,000 Class B Shares. In addition, further transactions between parties led to the sale of another 66,694 Class A Shares and 48,000 Class B Shares. In total, in 2010, the Class A Shares were



traded for an average of \$0.76 per Share and the Class B Shares were traded for an average of \$1.00 per Share. During 2009, Union Securities completed the sale of 7,200 Class A Shares and 24,000 Class B Shares while further transactions between parties led to the sale of another 22,200 Class A Shares and 12,000 Class B Shares. No direct share transactions occurred in either 2010 or 2009. Also, the Company did not complete any private closes during the nine months ended September 30, 2010. This compares to an additional ten

Selected Financial Information

In thousands (except earnings per share)

	2010				2009
	Q1	Q2	Q3	YEAR	YEAR
Sales	\$ 1,365	\$ 2,030	\$ 1,391	\$ 4,786	\$ 14,307
Gross profit	432	746	834	2,012	3,482
Gross profit percentage	31.6%	36.7%	60.0%	42.0%	24.3%
Inventory write-down	—	—	(1,618)	(1,618)	(200)
Other revenue	90	210	140	440	538
Operating, general and administrative expenses	1,026	961	1,024	3,011	4,050
Net loss/earnings	(439)	(3)	(1,730)	(2,172)	(243)
Total assets	9,977	11,264	7,617	7,617	10,112
Long-term liabilities	322	360	117	117	332
Earnings per share	\$ (0.08)	\$ (0.00)	\$ (0.33)	\$ (0.41)	\$ (0.05)

new Shareholders that were added to CANTERRA SEEDS through two separate private closes in 2009. These ten new Shareholders purchased 21,453 Class A Shares and 108,000 Class B Shares from Company treasury during the year.

Corporate policy of the Company is that prior to completion, the Company's Board of Directors must approve all proposed share transactions.

Sales and Gross Profit

Due to the change in year-end, from December 31 to September 30, the Company has a nine-month annual fiscal period for 2010. The three months that are not included in the current results is the period from October 1 to December 31. This three-month period is when the majority of the Company's sales take place, as a significant amount of canola seed is sold during this time. The three-month reduction in the current year, therefore, caused sales to decrease by \$9.52 million or 66.5% from \$14.31 million for the 12 months ended December 31, 2009, to \$4.79 million for the nine months ended, September 30, 2010.

This reduction in sales caused the gross profit to decrease. Gross profit reduced by \$1.47 million or 42.2% from \$3.482 million in 2009, to \$2.012 million in 2010. The overall reduction in gross profit was lower than the reduction in sales due to the fact that the gross profit percentage increased from 24.3% in 2009, to 42.0% in 2010. The increase in the gross profit percentage is due mainly to the fact that the current annual period does not include the high sales/low margin quarter of October 1 to December 31. Because of the current Western Canadian canola market structure, this quarter generally includes a significant portion of the annual canola sales of the Company. Margins for these sales are lower as seed is often heavily discounted to encourage early commitments and delivery.

CANTERRA SEEDS HOLDINGS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

The increase in gross profit percentage was also buoyed by the fact that sales of pedigreed seed at CANTERRA SEEDS, in particular sales of Glenn wheat, were at the highest level in Company history during 2010. Other significant pedigreed seed varieties that were planted and sold during the year were AC Infinity spring wheat, CDC Coalition barley, Cooper green field peas, AC Furlong oats, CDC PolarStar Barley, Stellar-ND barley, AC Thunderbird peas, AC Agassiz peas, Windbreaker dry beans, Triactor oats and CDC Yorkton barley. These sales are generally earned during the third quarter of the fiscal year as the majority of the Company's customers report these volumes during that time.

Inventory Write-Down

One of the most significant risks of CANTERRA SEEDS, and specifically the main risk with the Company's involvement in canola seed distribution, is the risk of inventory obsolescence. In other words, the inventory is no longer saleable either because the product does not meet the specific required quality levels defined in the Canada Seeds Act, or the product simply is not accepted in the competitive market environment. Since 2008, the Company has been dealing with high canola inventory quantities. This was a result of several factors that both increased certified canola seed production, and reduced canola seed sales since the fall of 2007. In September of 2010, it was determined that a significant amount of canola inventory was obsolete, and an inventory

write-down of \$1.62 million was taken during the year, \$1.42 million higher than the write-down recorded in the 2009 fiscal period. The aging of the canola product, along with the lower than expected canola sales caused by the extremely wet spring in Western Canada, were the main factors that created the requirement for the current year's inventory write-down.

Other Revenue

Other revenues totaled \$440,000 in 2010. The 18.2% reduction from the 2009 balance of \$538,000 is attributed to the fact that the current fiscal period is nine months while the 2009 fiscal period is 12 months.

Operating, General and Administrative Expenses

Operating, general and administrative expenses were reduced by 25.7% or \$1,039,000 in 2010 compared to 2009. Once again this is largely owing to the current fiscal period of nine months, opposed to the 2009 fiscal period of 12 months.

In addition, the Company completed its obligation for royalties on canola seed with GrowthWorks Canadian Fund Ltd. at the end of 2009. This has reduced CANTERRA SEEDS operating expenses by \$159,602 as compared to 2009 (see Schedule 1 at the end of the Financial Statements).

Income Tax Expense

The Company's 2010 effective tax rate of 0.2% compares to the 2009 effective tax rate of (5.5%). There is no significant change in the effective tax rate year over year. As per Note 15 of the financial statements, it is the current corporate policy of CANTERRA SEEDS to conservatively set up a valuation allowance for available income tax losses for the Company. At present, including the loss recorded for the nine months ended September 30, 2010, the Company has available income tax losses totaling to approximately \$2.24 million which are planned to be used to offset taxable income in future years.

Quarterly Results

The quarterly results vary based on the normal sales and expenditure patterns for CANTERRA SEEDS. The majority of seed sales occur during the period from October until May of each year. More specifically, the most significant quarters for sales are generally the three months from October 1 to December 31 and the three months from April 1 to June 30. As was described above, the Company has changed its year-end to September 30 from December 31 causing a nine-month annual fiscal period for 2010. Therefore, there are no results for the fourth quarter (October 1 to December 31) in the table above; the type of sales that take place cause significant differences in the gross profit percentage in



each quarter. The inventory write-down was determined and accounted for during the third quarter as seed test results occurred. Other revenue is recorded as it is incurred and operating, general and administrative expenses have stayed fairly flat throughout the year. The timing of canola sales during the year, along with the write-down of inventory caused the spike in total assets at the end of the second quarter, along with the reduction shown at the end of the third quarter.

Liquidity and Capital Resources

CANTERRA SEEDS cash position was reduced by almost \$421 thousand from December 31, 2009 to September 30, 2010. The main source of the reduction was cash used for operating activities. In total, the Company had a decrease of \$317 thousand relating to these operating activities.

Although CANTERRA SEEDS had a net loss for the year of \$2.172 million there were a significant amount of non-cash expenses, including the inventory write-down and amortization, which caused the loss from operations to use \$451 thousand of cash for the nine months ended September 30, 2010. In addition, there were noteworthy changes in working capital.

First, prior to the inventory write-down, the inventory balance increased by \$1.32 million. This was a result of the buildup and treatment for spring 2010 canola

sales. Extremely wet planting conditions prohibited many spring sales, and this inventory has either been written down, or is planned for sales in the 2011-planting season. Second, prepaid expenses and deposits increased by \$536 thousand, primarily because of the change in year-end. The Company pays deposits for the production of new canola seed inventory. This inventory is generally received between October 1 and March 31 and is transferred to inventory upon receipt. With the year-end change to September 30, the same deposits have occurred but nothing has been received in inventory as of yet. Third, due to the timing of payments, the accounts payable balance was \$0.8 million lower than at December 31, 2009. These reductions in cash are more than offset by a \$2.75 million reduction in accounts receivable. Once again, this is a function of the change in year-end. While the Company generally has significant sales in the fourth quarter of the calendar year, it has very few sales in the third quarter and any reporting of sales in the third quarter are generally accompanied with a cheque. The change of year-end from December 31 to September 30, therefore, has reduced the accounts receivable balance to \$0.53 million at September 30, 2010 from its balance of \$3.28 million at December 31, 2009.

Cash provided by financing activities was small but increased the CANTERRA SEEDS cash flow by \$10 thousand. Additional advances to related companies of

\$20 thousand were more than offset by a net increase in long-term debt of \$30 thousand during the nine-month fiscal period.

During the year, CANTERRA SEEDS has invested \$114 thousand for the acquisition of additional property and equipment and intangible assets.

The Company continues to add new shareholders. For the nine months ended September 30, 2010, CANTERRA SEEDS welcomed eleven new shareholders. All of these new shareholders purchased their shares from existing shareholders; therefore, no new share capital was issued out of treasury in 2010.

Despite the significant inventory write-down and loss incurred in 2010, the Company continues to have a strong liquidity position. CANTERRA SEEDS is basically debt free, has a solid debt/net worth ratio that meets the covenants of its lender, has a strong current ratio and continues to have a strong asset base that can be used to access additional debt financing. It is anticipated that as the Company continues to proactively deal with its current inventory position, the liquidity position at CANTERRA SEEDS will strengthen during the upcoming years, further enabling the Company to finance its future growth.

CANTERRA SEEDS HOLDINGS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

Financial Instruments

A portion of the Company's revenues and expenditures are denominated in US dollars. The Company is exposed to currency fluctuations on transactions denominated in US dollars. Currency fluctuations may impact on the profitability of the Company. This risk is managed, where practicable, through the use of foreign exchange forward contracts to fix the exchange rates on future net foreign currency cash outflows. The Company does not hold or issue derivative contracts for speculative purposes. As at September 30, 2010 CANTERRA SEEDS has no outstanding foreign currency forward contracts in place.

Risks and Uncertainties

Inventory Obsolescence Risk

In order to sell seed in the market place the seed inventory must meet stringent standards that are determined and set by the Canada Seeds Act. It is critical for CANTERRA SEEDS to efficiently manage the life cycle of its products to limit its inventory write-downs to minimal levels.

Production Risk

The availability of high-quality pedigreed seed for sale is dependent upon crop yields as well as the impact of weather and other factors on the quality of seed harvested. Reduced yields and quality can negatively impact the availability of seed. Prior to sale,

each bag of seed has to pass stringent tests for both germination and herbicide tolerance. CANTERRA SEEDS partially mitigates the risk of this exposure through the diversification of crop varieties as well as through geographic variation of production.

Competition

The pedigreed seed business is a very competitive marketplace. Certain competitors may have greater financial resources than CANTERRA SEEDS. In addition, certain competitors may have access to a wider range of pedigreed seed varieties through in-house breeding programs or relationships with plant breeders.

Industry Cyclicity

The demand for pedigreed seed is dependent upon a number of factors. These include the global seed supply, the relative price of the commodity as compared to its alternatives, the climactic conditions as well as many economic factors. Reductions in farm incomes and relative commodity price of canola as well as high global inventory supplies can all negatively impact the demand for pedigreed seed.

Foreign Exchange Risk

CANTERRA SEEDS contracts a portion of hybrid canola seed production to producers in US dollars. To the extent that the Canadian dollar weakens significantly as compared to the US dollar, these purchases will

negatively impact returns. To mitigate the effects of foreign exchange risk, management has implemented a hedging strategy of purchasing forward contracts against US dollar future contract commitments to the extent practicable. As the timing of harvest, harvested yield and quality data all impact the amount and timing of US dollar payments, all foreign exchange risk cannot be hedged. To the extent that the Company is not able to hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the US dollar may have a material adverse effect on CANTERRA SEEDS' results of operation, business, prospects and financial condition.

Outlook

CANTERRA SEEDS' operations can be broken down into two business models. The canola business is similar to any manufacturing operation. The Company manages the production of seed, treats and packages the seed, and retails it for a margin. In the Company's pedigreed seed business, licenses are obtained for new varieties in a number of different crop types (wheat, barley, peas, etc.). The Company's customers acquire licenses to grow and distribute these varieties and in turn pay CANTERRA SEEDS a royalty for the opportunity to sell and plant this seed. In both of these business models the Company faces many challenges.



In the canola business the Company has a significant amount of inventory of mature varieties on hand as of September 30, 2010. While this continues to be a significant risk to CANTERRA SEEDS, the Company has put together aggressive sales plans that will translate to significant returns to the growers who choose these mature products for their farm. In addition, while dealing with this inventory issue, the Company will very closely monitor its operating, general and administrative expenses to ensure that these expenses are well managed to attain the right balance between keeping costs to a minimum, while also working to grow CANTERRA SEEDS' sales. It is anticipated that this plan will also improve cash flow significantly during the 2011 fiscal period.

Going forward, the Company will need to proactively manage the life cycle of its varieties to ensure that the inventory obsolescence risk is kept to a minimum. Also, in order to effectively compete in the canola marketplace it is critical that CANTERRA SEEDS has access to leading edge canola genetics to drive future sales. CANTERRA SEEDS has met this challenge by establishing strong relationships with some of the most successful international canola breeding companies.

For the pedigreed seed business, once again, one of the key performance drivers is that the Company puts out competitive varieties that fit the needs of consumers

(i.e. yield, disease resistance and end-user acceptance). CANTERRA SEEDS meets this challenge by creating strong relationships with many of the top breeders throughout the world while also creating key links to the food processor chain. The recent and ongoing success of AC Infinity wheat, Stellar-ND barley, CDC PolarStar barley along with the introduction of Bentley barley, are some examples of how the Company is working closely with all parts of the food processing chain to create opportunity and value for all partners.

With pedigreed products, CANTERRA SEEDS is more successful when the number of growers using certified seed increases. It is anticipated that the amount of certified seed used will continue to increase as the grower finds more and more value (i.e. return) for ensuring that they use high-quality agricultural seed. CANTERRA SEEDS is well positioned with strong varieties, strong relationships, and an expanding grower base, which includes the best seed growers in Western Canada, in order to take advantage of this certified seed increase.

As mentioned earlier, CANTERRA SEEDS added 11 new shareholders to the Company during the nine months ended September 30, 2010. Eight of these 11 are seed grower shareholders that help to expand the footprint of CANTERRA SEEDS, selling its varieties into new markets throughout Western Canada. In each of these cases,

these new seed growers replaced growers who are in the process of shutting down their seed business, so this transfer is expected to reflect in increased revenues for CANTERRA SEEDS. The Company has a goal to continue to grow this shareholder base substantially over the next few years. The plan is to have strong varieties and strong growers in all regions of Western Canada. This, in turn, will continue to drive the growth of both pedigreed and canola seed sales for CANTERRA SEEDS.

Reporting Issuer

To facilitate new and existing shareholders entering and exiting the Company, CANTERRA SEEDS became a reporting issuer during 2004. In an effort to enable these trades, the Company has established a relationship with Union Securities, located in Regina and Saskatoon, where shares can be bought and sold. Under provincial securities law, the Company is considered a public company and as such, is required to make continuous disclosure to the public of its annual and quarterly financial statements and any material changes in the business or operations. Although the company is not listed on any prescribed stock exchange, the shares of the Company are tradable with few restrictions within the Company's shareholder group and, with Board of Directors approval, outside the shareholder group.

CANTERRA SEEDS HOLDINGS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

Material Change

On November 1, 2010 CANTERRA SEEDS announced the appointment of Mr. Lloyd Affleck as the Chairman of the Board of Directors. Mr. Affleck brings a lifetime of experience working within the seed and agriculture industry to this role. In addition, Mr. Affleck has been a shareholder of CANTERRA SEEDS since 1998, and has served on the Board of Directors since 2005. He has served as Chairman of Pulse Canada and has worked as a Director with the Saskatchewan Pulse Crop Development Board. Mr. Affleck succeeds the former Chairman of the Board, Mr. Ken Nelson, who has left to pursue new opportunities in the seed and biotech industry. Mr. Nelson was the Chairman of the Board of CANTERRA SEEDS since the Company's inception and will continue his involvement with the Company by retaining his ownership of his corporate shares.

Forward Looking Information

Certain statements in this MD&A may constitute forward-looking statements. These forward-looking statements can generally be identified by the use of statements that include the phrases such as "believe", "expect," "anticipate," "intend," "plan," "likely," "will" or similar words or phrases. Similarly, statements that describe the Company's objectives, plans or goals are or may be forward-looking statements. These forward-looking statements are based on the Company's current expectations and its projections about future events.

However, whether actual results and developments will conform to the Company's expectations and projections is subject to a number of risks and uncertainties. This includes, among other things, the risks and uncertainties associated with seed production, product performance, competition, poor weather, commodity prices, credit and foreign exchange risk. These are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of the Company's forward-looking statements. Other known and unpredictable factors could also harm its results. Consequently, there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

Additional Information

Any additional information relating to CANTERRA SEEDS is available on the SEDAR website at www.sedar.com.

International Financial Reporting Standards (IFRS)

The Canadian Institute of Chartered Accountants' Accounting Standards Board has published its strategic plan for convergence of Canadian GAAP with IFRS as issued by the International Accounting Standards Board. The changeover date for Canadian publicly accountable

enterprises is January 1, 2011, which means that as a Venture Issuer, CANTERRA SEEDS will begin using IFRS for the fiscal year beginning on October 1, 2011, with comparative restatement for the year ending September 30, 2011. The opening IFRS balance sheet will therefore take place on October 1, 2010.

CANTERRA SEEDS project plan is comprised of three phases: diagnostic, design and implementation. The Company completed a diagnostic that identifies the material differences between IFRS and current accounting policies for the Company and is in the process of completing a plan for full transition to the new standards. For each balance sheet and income statement item the specific options and changes are being charted to determine the potential effect on the Company's financial statements. The intention is that the first draft of the opening IFRS balance sheet will be completed prior to March 31, 2011. Throughout the 2011 fiscal period (October 1, 2010 to September 30, 2011) IFRS statements will also be completed to prepare for the full conversion beginning with the interim period ended December 31, 2011.

At this time, the full impact of the transition to IFRS on the Company's future financial position and future operational results is not reasonably determinable or estimable. However, due to the nature of the Company's assets, liabilities, contingencies and income, the effect does not appear to be overly significant. Also, the



Company continues to assess the available transitional exemption options along with their impact on the Company's financial statements.

Corporate Governance

CANTERRA SEEDS has developed a corporate infrastructure to support the expanding business in an effort to reach its strategic goals. The staffing of the Company, as well as the composition of the Board of Directors, has been designed in a way that will enable the full support for the anticipated future growth.

The consolidated financial statements and MD&A of CANTERRA SEEDS HOLDINGS LTD. and all other information in this annual report are the responsibility of management and have been reviewed and approved by its Board of Directors.

Management in accordance with Canadian GAAP has prepared the consolidated financial statements. The MD&A has been prepared in accordance with the requirements of securities regulators. The financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the financial statements and MD&A are presented fairly in all material respects.

The Board of Directors is responsible to all shareholders for overall strategic direction, the fiduciary responsibilities and corporate policy decisions. The Board of Directors has eight members, all of which are non-management. One of the Directors is not a seed grower shareholder, but has significant business experience in the agriculture and seed industry. Two Directors represent the interest of Riverland Agriculture, Ltd. Two Directors are independent seed retailers and represent the interests of these retailers on the Board. The final three Directors, including the Chairman of the Board, are seed growers or past seed growers with significant experience in the seed industry. Each seed grower represents different geographical regions of the prairies.

Commencing in 2004, in conjunction with the change to reporting issuer status, the Board of Directors appointed an Audit Committee. The entire Audit Committee, including the committee Chairman is comprised of the three non-management Directors. This committee is responsible for overseeing the overall accounting and financial reporting systems of the Company. The Audit Committee recommends the appointment of the proposed external auditors to the shareholders at the Annual General Meeting (AGM). The Audit Committee meets with the external auditor and/or Chief Financial Officer (CFO) on a regular basis as part of its review of the annual audits as well as the quarterly unaudited

financial statements, prior to submission to the Board for approval. The external auditors report to the Audit Committee.

In 2005, the Board appointed a Human Resources Committee that is responsible for making recommendations to the Board of Directors regarding corporate human resource matters. This committee is active as required, and consists of two Directors along with the Chief Executive Officer (CEO).

In March of 2010, the Board appointed a Governance Committee that is responsible for making recommendations to the Board of Directors regarding the appropriate Corporate Governance policy and procedures for the CANTERRA SEEDS Board of Directors. This committee is active and consists of two Directors along with the outside council, to be used as a reference as required.

The Nominating Committee of the Board of Directors is comprised of two past Directors, one shareholder, the Chairman of the Board as well as the President and CEO. Members of the committee represent their respective province, Alberta, Saskatchewan and Manitoba. The committee is responsible for overseeing the entire process of nominating and electing the slate of Directors to be voted for approval at the Company's AGM.

CANTERRA SEEDS HOLDINGS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The Company's President and CEO, along with the CFO, are responsible for establishing and maintaining disclosure controls and procedures as well as internal controls over financial reporting (as defined in the Canadian Securities Administrators' Multilateral Instrument 52-109). These responsibilities include designing the Company's disclosure controls and procedures and internal control over financial reporting, or causing them to be designed under their supervision. These must provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, in particular, during the period in which the annual filings are being prepared. In addition, these responsibilities include having reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

With respect to disclosure controls and procedures, the Company's management, including the CEO and the CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures as at September 30, 2010 as required by Canadian securities laws. Based on that evaluation, the CEO and CFO have concluded that, as of September 30, 2010, the disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The CEO and CFO have also concluded that there has been no change in the Company's internal control over financial reporting during the year ended September 30, 2010 that has material affected, or is reasonably likely to affect, the Company's internal control over financial reporting.





CANTERRA SEEDS HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the nine-month period ended September 30, 2010 and the year ended December 31, 2009.

Management's Responsibility

To the shareholders of Canterra Seeds Holdings Ltd.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed of Directors who are neither management nor employees of the Company. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the Annual Report. The Committee fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditors. The Committee is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

December 3, 2010



David Hansen
Chief Executive Officer
President



Gerry Cantin
Chief Financial Officer

Auditors' Report

To the shareholders of Canterra Seeds Holdings Ltd.:

We have audited the consolidated balance sheets of Canterra Seeds Holdings Ltd. as at September 30, 2010 and December 31, 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the nine months ended September 30, 2010 and for the year ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2010 and December 31, 2009 and the results of its operations and its cash flows for the nine months ended September 30, 2010 and for the year ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba

December 3, 2010



Meyers Norris Penny LLP, Chartered Accountants



Consolidated Balance Sheet

	September 30, 2010	December 31, 2009
	\$	\$
Assets		
Current		
Accounts receivable	526,638	3,281,255
Inventory (Note 5)	5,338,024	5,633,146
Income taxes recoverable	16,115	-
Prepaid expenses and deposits	806,126	269,739
	<u>6,686,903</u>	<u>9,184,140</u>
Property and equipment (Note 6)	285,838	279,460
Intangible assets (Note 7)	278,767	256,898
Future income taxes (Note 15)	77,920	124,152
Advances to related companies (Note 8)	287,087	267,300
	<u>7,616,515</u>	<u>10,111,950</u>
Liabilities		
Current		
Bank indebtedness (Note 11)	608,754	187,989
Accounts payable and accruals	3,997,112	4,796,718
Deferred revenue (Note 9)	57,126	2,349
Current portion of long-term debt (Note 11)	50,425	40,762
Current portion of convertible debentures (Note 12)	243,218	-
Future income taxes (Note 15)	62,035	98,587
	<u>5,018,670</u>	<u>5,126,405</u>
Long-term debt (Note 11)	107,348	87,565
Convertible debentures (Note 12)	9,427	244,793
	<u>5,135,445</u>	<u>5,458,763</u>
Basis of presentation (Note 2)		
Commitments (Note 17)		
Shareholders' Equity		
Share capital (Note 13)	5,582,230	5,582,230
Deficit	(3,119,883)	(947,766)
Equity portion of convertible debentures (Note 12)	18,723	18,723
	<u>2,481,070</u>	<u>4,653,187</u>
	<u>7,616,515</u>	<u>10,111,950</u>

Approved on behalf of the board



James Wilson
Director



Lloyd Affleck
Director

CANTERRA SEEDS HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the nine-month period ended September 30, 2010 and the year ended December 31, 2009.

	2010	2009
	\$	\$
Sales	4,786,391	14,307,201
Cost of sales	2,774,056	10,825,385
Gross profit	2,012,335	3,481,816
Inventory write down	(1,618,086)	(200,000)
Other revenue (Note 4)	439,811	537,762
	834,060	3,819,578
Operating, general and administrative (Schedule 1)	3,011,025	4,049,911
Loss from operations before taxes	(2,176,965)	(230,333)
Recovery/(Provision) for income taxes		
Current	14,528	1,561
Future	(9,680)	(14,170)
	4,848	(12,609)
Net loss and comprehensive loss	(2,172,117)	(242,942)
Deficit, beginning of year	(947,766)	(704,824)
Deficit, end of year	(3,119,883)	(947,766)
Loss per share		
Basic and fully diluted (Note 16)	(0.41)	(0.05)



Consolidated Statements of Cash Flows

For the nine-month period ended September 30, 2010 and the year ended December 31, 2009.

	2010	2009
	\$	\$
Cash provided by (used for) the following activities		
Operating activities		
Net loss	(2,172,117)	(242,942)
Amortization of property and equipment	39,005	38,135
Amortization of intangible assets and financing fees	49,933	58,920
Accretion of convertible debentures	4,179	3,663
Inventory write-down	1,618,086	200,000
Future income taxes	9,680	14,170
	(451,234)	71,946
Changes in working capital accounts		
Accounts receivable	2,754,617	3,178,261
Inventory	(1,322,964)	(1,770,601)
Income taxes recoverable	(16,115)	-
Prepaid expenses and deposits	(536,387)	1,290,406
Accounts payable and accruals	(799,606)	(1,918,950)
Deferred revenue	54,777	(2,801,075)
	(316,912)	(1,950,013)
Financing activities		
Advances to related companies and shareholders	(19,787)	(50,610)
Issuance of share capital, net of issue costs	-	110,868
Advances of long-term debt	71,088	108,479
Repayment of long-term debt	(41,642)	(278,663)
	9,659	(109,926)
Investing activities		
Purchases of property and equipment	(45,383)	(160,694)
Acquisition of intangibles	(68,129)	(99,184)
	(113,512)	(259,878)
Decrease in cash resources	(420,765)	(2,319,817)
Cash resources/bank indebtedness, beginning of year	(187,989)	2,131,828
Cash resources/bank indebtedness, end of year	(608,754)	(187,989)
Cash resources/bank indebtedness comprised of:		
Cash with bank	225,312	30,821
Revolving demand facility	(834,066)	(218,810)
	(608,754)	(187,989)

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

For the nine-month period ended September 30, 2010 and the year ended December 31, 2009.

1. Incorporation and Operations

Canterra Seeds Holdings Ltd. (the "Company") purchases, produces, and distributes seed varieties and related technologies. Due to the seasonal nature of the agricultural industry the majority of seed sales occur during the months of October to June. On March 30, 2010, the corporation changed its year-end from December 31, to September 30. The year-end change was necessary to better synchronize financial reporting and business planning with its natural business cycle and those of its key customers and suppliers.

2. Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian GAAP and include the following significant accounting policies:

Basis of presentation and continuing operations

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business for the foreseeable future. Should the Company be unable to continue as a going concern,

it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

These consolidated financial statements do not give effect to adjustments that would be necessary should the Company be required to realize its assets in other than the normal course of business. The use of Canadian GAAP applicable to a going concern may not be appropriate as there may be doubt with the ability of the Company to continue as a going concern. The Company sustained net losses in both the nine months ended September 30, 2010 and the year ended December 31, 2009.

The Company's ability to continue as a going concern and realize the assets on the accompanying balance sheet is dependent upon its ability to attain profitable future operations and generate positive cash flow, acquire adequate working capital by continuing to obtain borrowings from third parties sufficient to meet current and future obligations and/or restructuring the existing debt and payables and/or raising further debt or equity. These financial statements do not reflect the adjustments or reclassification of assets and liabilities, which would be necessary if the going concern assumption was not appropriate.

Basis of consolidation

The Company has consolidated the assets, liabilities, revenues and expenses of all subsidiaries after the elimination of intercompany transactions and

balances. The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries: Canterra Seeds (2002) Ltd., CVC Technologies Ltd. and Canterra Seeds (USA) Ltd.

Inventory

Inventory is comprised of finished goods consisting of treated and bagged, as well as raw materials consisting of bare untreated canola seed and is valued at the lower of cost and net realizable value, with cost being determined on a weighted average cost basis. The Company has no work-in-progress.

Investments in joint ventures

The Company, through a wholly owned subsidiary, has an investment in a joint venture, Meridian Seeds LLC, in which it shares 50% control. Investments in this company which are subject to joint control are accounted for using the proportionate consolidation method whereby 50% (2009 50%) of Meridian Seeds LLC assets and liabilities are recognized in the consolidated balance sheet of the Company and 50% of Meridian Seeds LLC revenues and expenses are recognized in the Company's consolidated statement of earnings (loss) and deficit.

Property and equipment

Property and equipment are initially recorded at cost. Amortization is provided using the declining balance and straight-line method at rates intended to amortize the cost of assets over their estimated useful lives.



	Method	Rate
Computer hardware	declining balance	30 %
Computer software	declining balance	100 %
Website	declining balance	20 %
Furniture and fixtures	declining balance	20 %
R&D plot equipment	declining balance	20 %
Leasehold improvements	straight line	5 years

Long-lived assets

Long-lived assets consist of property and equipment, and intangible assets with finite useful lives. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in earnings for the year.

Prices for similar items are used to measure fair value of long-lived assets.

Intangible assets

Intangible assets consist of license fees that have been paid to secure the production and distribution rights for various types of breeder seed. These fees are initially stated at cost and are being amortized over the term of the contract agreements.

Revenue recognition

The Company recognizes revenue and profits from the sale of seed when the seed has been shipped or when contractual commitments related to the sale have been met. Volume related royalty revenue is recognized in the period in which the grower reports the sale to the Company. Scientific Research and Experimental Development (SR&ED) credits are recognized when the related expenses have been incurred. Deferred revenue is taken into income in the period in which it is earned. Contract services and program payments are recognized when earned.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation

allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted and substantively enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Foreign currency translation

The Company has an integrated foreign operation. Accordingly, the temporal method is used to measure the investment in this operation. Monetary assets and liabilities are translated to Canadian dollars using the exchange rate in effect at the balance sheet date. All other assets and liabilities are translated at historical rates. Revenues and expenses are translated at the weighted average exchange rate for the year, except depreciation, which is translated at the historical rate applicable to the related asset. Exchange gains and losses from the translation of the financial statements are reflected in earnings during the period in which they occur.

Earnings per share

Basic earnings per share are calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period.

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Diluted earnings per share is calculated based on the treasury stock method, by dividing income available to common shareholders, adjusted for the effects of dilutive convertible securities, by the weighted average number of common shares outstanding during the period and all additional common shares that would have been outstanding had all potential dilutive common shares been issued. This method computes the number of additional shares by assuming all dilutive options are exercised. That total number of shares is then reduced by the number of common shares assumed to be repurchased from the total of issuance proceeds, using the average market price of the Company's common shares for the period. The effect of contingently convertible instruments has been included in the computation of diluted earnings per shares.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and

obsolete inventory. Amortization is based on the estimated useful lives of property and equipment. SR&ED tax credit claims are based on methodologies and assumptions applied by management in previous successful claims.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Financial instruments

The Company recognizes and measures its financial assets, financial liabilities, and derivatives in accordance with CICA 3855. Accordingly, the Company has classified and measured its financial instruments as follows: upon initial recognition at fair value and then subsequently; cash is classified as held-for-trading and is measured at fair value, accounts receivable are classified as loans and receivables and are measured at amortized cost, advances to related companies are classified as loans and receivables and are measured at amortized cost using the effective interest rate method, bank indebtedness, accounts payable and accruals, long-term debt, payable to shareholders and the debt portion of convertible debentures are classified as other financial liabilities and are measured at amortized cost.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, transaction costs are capitalized on initial recognition and are measured at amortized cost using the effective interest rate method.

The Company does not hold any financial instruments that would have generated Other Comprehensive Income. Accordingly, the Company does not have any Other Comprehensive Income.

Accounting policy developments

The Accounting Standards Board amended CICA Handbook Section 3862, "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The additional disclosure requirements about fair value measurements are intended to provide users of the financial statements with the ability to assess the reliability of an entity's fair value measurements and have been incorporated into the Company's note disclosure for fair value of financial instruments (Note 18).

3. Recent Accounting Pronouncements

CICA Handbook Section 1582 – Business Combinations will apply prospectively to business combinations for which the acquisition date is on or after the



beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Sections 1601 – Consolidations and 1602 – Non-Controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Section 1581 – Business Combinations and 1600 – Consolidated Financial Statements. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

International financial reporting standards

The Canadian Accounting Standards Board recently confirmed January 1, 2011 as the date International Financial Reporting Standards (“IFRS”) will replace Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises. The new Standards are effective for annual financial statements with fiscal years beginning January 1, 2011. The Company is currently assessing the impact to its financial statements.

4. Other Revenue

	2010	2009
	\$	\$
Interest	23,982	9,686
License fee	5,670	3,683
Contract services and program payments	160,650	220,937
Other	21,317	17,191
Scientific research & development tax refundable (Note 10)	228,192	286,265
	439,811	537,762

5. Inventory

	2010	2009
	\$	\$
Finished goods	1,409,549	1,077,338
Raw materials	3,928,475	4,555,808
	5,338,024	5,633,146

The cost of inventories recognized as an expense and included in cost of sales amounted to \$2,774,056 (2009 – \$10,825,385). During the year, \$1,618,086 in inventory was written down from to its carrying amount to its net realizable value (2009 – \$200,000).

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6. Property and Equipment

	2010		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer hardware	136,630	120,643	15,987
Computer software	197,598	60,831	136,767
Website, furniture and fixtures	117,475	90,100	27,375
R&D plot equipment	168,349	65,216	103,133
Leasehold improvements	15,471	12,895	2,576
	635,523	349,685	285,838

	2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer hardware	126,080	116,088	9,992
Computer software	176,175	49,605	126,570
Website, furniture and fixtures	116,702	85,015	31,687
R&D plot equipment	155,712	48,132	107,580
Leasehold improvements	15,471	11,840	3,631
	590,140	310,680	279,460

7. Intangible Assets

	2010		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
License fees	902,931	624,164	278,767

	2009		
	Cost	Accumulated Amortization	Net book value
	\$	\$	\$
License fees	834,802	577,904	256,898

8. Advances to Related Companies

	2010	2009
	\$	\$
Meridian Seeds LLC	287,087	267,300

Advances to related companies are unsecured, non-interest bearing and have no fixed terms of repayment. Meridian Seeds, LLC, a US Limited Liability Corporation is a 50% joint venture interest of a wholly owned subsidiary of the Company.

9. Deferred Revenue

Deferred revenue is comprised of deposits received from customers for which the related product has either not been shipped or the contractual commitments have not been met as at September 30, 2010 or December 31, 2009.

10. Government Assistance

During the year, the Company filed Canadian federal and provincial income tax returns for the 2009 taxation year, in order to apply for SR&ED Investment Tax Credits (ITCs). The Company also estimated and accrued the SR&ED ITCs for the 2010 taxation year. ITCs reduce taxes payable and are accounted for as other revenue or a reduction of capital expenditures, depending on the nature of the expenses that qualify for the credit. The benefit recorded resulted in other revenues of \$228,192 (2009 – \$286,265) and a reduction of the cost of equipment of \$nil (2009 – \$28,275). In the normal course of SR&ED expense claims, the Company is subject to reviews by federal and provincial government authorities.

11. Long-term Debt

Long-term debt consists of capital lease obligations.

	2010	2009
	\$	\$
Capital lease obligation payable in monthly installments of \$1,518 bearing interest at 6.38%, secured by related equipment (net book value \$63,979), due 2014.	63,680	–
Capital lease obligation payable in monthly installments of \$2,504, bearing interest at 5.11%, secured by related equipment (net book value \$78,105), due 2013.	79,093	98,185
Capital lease obligation payable in semi-annual installments of \$5,584, bearing interest at 4.95%, secured by related equipment (net book value \$21,943), due 2012	15,000	30,142
	157,773	128,327
Less: current portion	50,425	40,762
	107,348	87,565

Principal repayments on long-term debt in each of the next four years are estimated as follows:

2011	\$ 50,425
2012	50,461
2013	39,857
2014	17,030

The Company has available to it a revolving demand facility available to finance inventory and receivables to a maximum of \$1,500,000. Interest is payable on the outstanding balance at the rate of prime plus .50% on all amounts outstanding. The revolving demand facility is secured by a general security agreement together with a first charge on all inventory. The terms of the revolving demand facility require that certain measurable covenants be met. As at September 30, 2010, the Company is in compliance with all such covenants.

As at September 30, 2010, the Company had \$834,066 drawn against the revolving demand facility (2009 – \$218,810).

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12. Convertible Debentures

During 2006, the Board of Directors approved a private-placement offering of a series of five-year convertible debentures. The debentures bear interest at 12% per annum, payable: (i) semi-annually; or (ii) to be compounded annually over the term of the debenture, at the option of the holder, and paid on maturity or upon conversion of all of the principal amount owing under the debenture. The holder must declare their choice of (i) or (ii) at the time of purchase.

The Company retains the right to redeem all or part of the debentures, on 90 days written notice to the holders thereof, at a redemption price equal to the outstanding principal amount plus all accrued but unpaid interest. The debentures are unsecured and are subordinated to existing and future secured debt.

The Company issued \$50,000 and \$201,000 of debentures in April 2006 and December 2006 respectively. The debentures mature on April 30, 2011. In 2008 the Company issued additional debentures totaling \$10,000 with the same terms conditions and assumptions applied to their fair value calculation. No debentures were issued during 2010.

The debentures are convertible once in each year (beginning one year from the date of purchase) and at maturity, the debenture holders may opt to convert the debentures, in whole or in part, which may include all accrued but unpaid interest, into Class A Shares. Each debenture holder may exercise its conversion right during the period April 1 to April 30 in any year or at any time within the 120-day period prior to maturity of the debenture, such conversion to take place on April 30 or the date of maturity. The debenture will be converted into Class A Shares at: (i) a conversion price equal to 85% of the market price of the Class A Shares as at the date of the notice of conversion being given to the issuer (which market price will be based on the average of the last 10 trades of Class A Shares of not less than 1,000 Class A Shares per trade immediately prior to the date of

the conversion notice); or (ii) if 10 such trades have not occurred within the 12 months immediately prior to the date of the conversion notice, in accordance with the following:

Conversion date	Conversion price
2011	\$ 1.24 / share
2012 or later	\$ 1.36 / share

The equity component of the debentures has been valued using a Black-Scholes model with the following weighted average assumptions; dividend yield of 0%, volatility of 0%, market interest rate of 14.1% and expected life of five years.

The following is the allocation of the convertible debentures to their debt and equity components:

	Equity	Debt
	\$	\$
2009	18,723	244,793
Amortization of financing fees	–	3,673
Accretion	–	4,179
2010	18,723	252,645
Less current portion		243,218
		9,427



13. Share Capital

Authorized

Unlimited number of Class A voting common shares.

Unlimited number of Class B shares, non-voting, non-participating, redeemable at the option of the Company if the shareholder fails to fully pay for shares, fails to exercise share purchase options, or if the shareholder causes the corporation to have its rights under any license agreement terminated.

Unlimited number of Class C shares without nominal or par value, non-voting, and non-redeemable.

	2010	2009	
	\$	\$	
Issued			
Common shares			
5,285,803	Class A common shares (2009 – 5,285,803)	5,120,228	5,120,228
2,112,000	Class B series 1 shares (2009 – 2,112,000)	462,001	462,001
3,324,000	Class C series 1 shares (2009 – 3,372,000)	1	1
		5,582,230	5,582,230

During the year the Company retracted 48,000 Class A common shares, 24,000 Class B series 1 shares and 48,000 Class C series 1 shares with carrying values of \$46,496, \$5,250 and \$0.01, respectively and issued 48,000 Class A common shares and 24,000 Class B series 1 shares with costs of \$46,496 and \$5,250 respectively.

14. Investment in Joint Venture

The following amounts represent the Company's proportionate interest relating to its joint venture:

	2010	2009
	\$	\$
Assets	236,341	104,014
Liabilities	82,981	240,847
Revenues	310,491	118,135
Expenses	284,471	162,300
Net Income	26,020	(44,165)
Cash provided by (used in) operating activities	12,685	(184,334)
Cash provided by (used in) investing and financing activities	(8,043)	–

15. Income Taxes

Total income taxes are different from the amount computed by applying the combined expected Canadian Federal and Provincial tax rate of 11.92% (12.00% in 2009) to income before income taxes. The reasons for the difference are as follows:

	2010	2009
	\$	\$
Income taxes calculated using statutory income tax rate	(259,494)	(27,640)
Non-deductible expenses	3,834	5,328
Other items	(27,255)	48,343
Valuation allowance	278,067	(13,422)
Actual tax expense	(4,848)	12,609

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The Company has available income tax losses in Canada of approximately \$1,935,000, and in the United States of approximately \$301,000, which can be used to offset taxable income in future years. The losses expire according to the following schedule:

Year	Canada	United States
	\$	\$
2023	–	7,000
2024	–	70,000
2025	–	55,000
2026	–	51,000
2027	–	20,000
2028	–	59,000
2029	9,000	39,000
2030	1,926,000	–

The Company earned approximately \$228,192 of federal SR&ED investment tax credits during the current year.

The components in computing the future income taxes at September 30, 2010 are as follows:

	2010	2009
	\$	\$
Non-capital losses	293,113	136,055
Property and equipment	46,116	32,686
Intangible assets	(17,774)	(7,581)
Investment tax credits	586	(28,494)
Other items	50,588	(28,424)
Valuation allowance	(356,744)	(78,677)
	15,885	25,565

16. (Loss) Earnings per Share

The basic loss per share has been calculated based upon the weighted average number of shares outstanding during 2010 of 5,285,803 (2009 – 5,282,570).

17. Commitments

The Company has entered into an agreement to lease its premises to June 2012 and to lease vehicles and equipment to September 2013 with estimated minimum annual payments as follows:

2011	\$ 156,000
2012	102,000
2013	14,000
2014	2,000

18. Financial Instruments and Risk Management

Risk management

In the normal course of business, the Company is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates, and in the credit quality of its customers. Management's involvement in operations helps identify risks and variations from expectations.

As a part of the overall operation of the Company, management takes steps to avoid undue concentrations of risk. The Company manages the risks, as follows:

Liquidity risk

Liquidity risk arises from the possibility of the Company not having sufficient debt and equity capital available to fund its growth and refinance its debt as it matures. Management believes that future cash flows from operations and availability under existing banking arrangements will be adequate to support these financial obligations.



Interest rate risk

The Company is exposed to interest rate risk as bank indebtedness charges interest at variable rates. A +/- 50 basis point change in interest rates would, based on the Company's consolidated financial statements at September 30, 2010, have an effect on the loss of approximately +/- \$4,170. The Company does not trade financial instruments.

Market risk

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: credit risk, foreign currency risk and other price risk.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk are accounts receivable. The Company believes that there is minimal risk associated with the collection of these amounts. The maximum credit risk exposure is the carrying value of the financial assets. The Company manages its credit risk by performing regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not generally require collateral or other security from customers on accounts receivable.

Accounts receivable are past due when a customer fails to make a payment when contractually due. The following is an aging of accounts receivable past due but not impaired:

	2010	2009
	\$	\$
0 – 30 days	472,728	3,048,891
31 – 60 days	26,534	6,019
More than 60 days	27,376	226,345
	526,638	3,281,255

A reconciliation of allowance for doubtful accounts is as follows:

	2010	2009
	\$	\$
Balance beginning of year	10,000	33,133
Bad debt recoveries	–	(16,194)
Amounts written off as uncollectible	–	(6,939)
	10,000	10,000

Foreign currency risk

The Company enters into transactions denominated in United States currency for which the related revenues, expenses, accounts receivable and accounts payable balances are subject to exchange rate fluctuations. As at September 30, 2010, the following items are denominated in United States currency:

	2010	2009
	CAD\$	CAD\$
Cash	225,082	24,822
Accounts receivable	97,371	64,851
Bank indebtedness	–	18,548
Accounts payable	421,097	8,893

CONSOLIDATED FINANCIAL STATEMENTS

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. No foreign currency forward contracts exist at September 30, 2010.

A 1% increase/decrease in United States dollar foreign exchange rates would increase/decrease other revenue by \$1,000, resulting in an increase/decrease to Net Income of \$700.

Other price risk

Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The Company manages these risks by limiting inventory levels and actively monitoring the market and adjusting its pricing strategies accordingly.

Fair value of financial instruments

Financial instruments include cash, accounts receivable, advances to related parties, bank indebtedness, accounts payable and accruals, long-term debt, and the debt component of convertible debentures. Except for the advances to related parties, long-term debt, and the debt component of convertible debentures, the carrying values of these financial instruments approximate fair value due to the short-term nature of the financial instruments.

The fair values of the advances to related parties are not determinable due to the underlying terms and conditions of the instruments.

The fair values of the Company's long-term debt and the debt component of convertible debentures are estimated using discounted cash flows based upon the Company's current borrowing rates for similar borrowing arrangements. The carrying value of long-term debt approximates its fair value as new debt granted with similar risk profiles bears similar rates of return.

Fair value hierarchy

The financial assets and liabilities recorded at fair value on the balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes based on the inputs of their respective valuation technique. The Company has classified its fair valued financial instruments in the following levels:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities – bank indebtedness

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly as prices or indirectly by derivation from prices – none

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities – none

The following table summarizes the Company's financial liabilities with corresponding maturity:

	Total	2011	2012	2013	2014
Accounts payable and accruals	3,997,112	3,997,112	–	–	–
Bank indebtedness	608,754	608,754	–	–	–
Long-term debt	157,773	50,425	50,461	39,857	17,030
Convertible debentures	261,000	251,000	10,000	–	–
Total	5,024,639	4,907,291	60,461	39,857	17,030



19. Capital Management

The Company manages its capital to ensure that financial flexibility is present to increase shareholder value through organic growth and to allow the Company to respond to changes in economic and/or marketplace conditions. The Company also strives to maintain an optimal capital structure to reduce the overall cost of capital. In the management of capital, the Company includes bank indebtedness, long-term debt, shareholder advances, debentures and shareholders' equity. The Board of Directors has established quantitative return on capital criteria for management as well as long-term growth targets. In order to maintain or adjust the capital structure the Company may issue shares, debentures, return capital to shareholders, purchase shares, or reduce debt.

Market requirements for attracting capital may vary in ways that the Company may not be able to accurately predict.

The Company monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debt less cash and cash equivalents. Adjusted capital comprises all components of equity and convertible debentures.

There were no changes in the Company's approach to capital management during the year.

A wholly owned subsidiary of the Company has externally imposed capital requirements as governed through its bank credit facilities. As of September 30, 2010 the subsidiary Company must have a debt to tangible net worth ratio of less than 2.5:1. Debt is defined as the sum of all debt less cash and less any subordinated debt. Tangible net worth is defined as the total Shareholder equity along with all of the subordinated debt, less the intangible assets and related party assets of the subsidiary. As at September 30, 2010 this ratio is 2.16:1.

20. Related Party Transactions

Certain shareholders have entered into transactions with the Company for the purchase and sale of seed and seed products. These transactions were in the normal course of business and were recorded at their exchange amount.

21. Supplemental cash flow information

Interest paid for the year ended September 30, 2010 totaled \$43,724 (2009 – \$53,600).

22. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.

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Schedule 1 Consolidated Schedule of Operating, General and Administrative

For the nine-month period ended September 30, 2010 and the year ended December 31, 2009.

	2010	2009
	\$	\$
Advertising and promotion	499,786	644,231
Amortization of intangible assets and financing fees	49,933	58,920
Amortization of property and equipment	39,005	38,135
Accretion of convertible debentures	4,179	3,663
Bad debts	–	(16,194)
Bank charges and interest	8,229	9,943
Business taxes and licenses	3,169	5,880
Consulting fees	77,937	79,577
Directors' fees and corporate reporting	107,926	152,522
Information technology	28,129	18,870
Insurance	78,092	95,323
Interest on long-term debt	35,495	43,657
Meetings	42,306	38,188
Memberships	21,066	18,799
Office	88,079	124,918
Professional development	11,726	50,092
Professional fees	93,205	116,921
Rent	60,375	77,352
Research	72,491	125,296
Royalties relating to long-term debt	–	159,602
Salaries, wages and benefits	1,341,109	1,770,431
Telephone, fax and internet	52,797	72,228
Travel and entertainment	295,991	361,557
	<u>3,011,025</u>	<u>4,049,911</u>



CANTERRA SEEDS STAFF

Administration and Finance

David Hansen

President and Chief Executive Officer (CEO)

Gerry Cantin

Chief Financial Officer (CFO)

Karen Hogaboam

Accounting Manager

Stephen Nolan

Information Systems Manager

Gudrun Hiebert

Administrative Assistant

Sales and Marketing

Ron Brand

Director, Sales and Marketing

Sheena Pitura

Marketing Manager

Brent Kosie

Territory Manager – Manitoba

Jeff Clarke

Territory Manager – Saskatchewan South

Kevin Popp

Territory Manager – Saskatchewan East

Jon Turetsky

Territory Manager – Saskatchewan West

Christy Hambly

Territory Manager – Alberta South

Brian Knull

Territory Manager – Alberta North

Research and Product Development

Erin Armstrong, Ph.D

Director, Research and Product Development

Earl Bargen

Field Research Manager

Shaan Tsai

Product Development Manager

Surjit Bawa

Field Research Agronomist

Operations and Production

Brent Derkatch

Director, Operations and Business Development

Brad Hamblin

Production Manager

Richard Love

Seed Production Coordinator

Sandy Lavoie

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