TSXV: CZO
OTCQX: CRPOF

CEAPRO
Nature Enhancing Life®

Annual Report 2019

Table of Contents

CEAPRO
Nature Enhancing Life®

Ceapro Inc. is a Canadian biotechnology company involved in the development of proprietary extraction technology and the application of this technology to the production of extracts and "active ingredients" from oats and other renewable plant resources. Ceapro adds further value to its extracts by supporting their use in cosmeceutical, nutraceutical, and therapeutics products for humans and animals. The Company has a broad range of expertise in natural product chemistry, microbiology, biochemistry, immunology and process engineering. These skills merge in the fields of active ingredients, biopharmaceuticals and drug-delivery solutions. For more information on Ceapro, please visit the Company's website at **www.ceapro.com**.

Letter to Shareholders

Dear Fellow Shareholders

Your Company is poised for major advancement from its proprietary technologies and new product applications. We have delivered another solid year with our base business serving the cosmeceutical sector while maintaining Ceapro's progression as a development-stage biopharmaceutical company dedicated to innovation.

Ceapro's management took the strategic steps to maintain the vision to transition to a new business model from a contract manufacturer to a biopharmaceutical company offering innovative products and delivery systems to the personal and healthcare sectors. Such developments for new products and technologies require significant investment in Research and Development (R&D) and we are very satisfied with the following achievements made in 2019:

- **Innovation:** advanced existing product pipeline and developed new powder formulations and chemical complexes using proprietary enabling technologies.

  1. **Beta glucan:**
     - Successfully completed clinical batches of pharmaceutical grade tablets for the assessment of beta glucan as a cholesterol reducer.
     - Pursued enrollment and randomization of patients for the pilot trial led by the prestigious Montreal Heart Institute. This is the first clinical trial in Ceapro's history with a proprietary pharmaceutical grade product.
     - Received approval from Health Canada for an amendment to the protocol to allow evaluation of subjects with confirmed pathophysiological condition of hyperlipidemia who voluntary request to be treated with beta glucan only, without regular dosing of statins. This significant change allowing patients to receive beta glucan as a stand-alone therapy should accelerate patient enrollment and expand target addressable patient population.

  2. **Avenanthramides:**
     - Presented positive results from a bio-efficacy study with University of Minnesota researchers using and assessing the effects of Ceapro's highly concentrated powder formulation of avenanthramides in exercise-induced inflammation. Positive results support anti-inflammatory claims for avenanthramides as a nutraceutical product.

  3. **New Chemical Complexes:**
     - Developed and presented several new PGX-dried chemical complexes like beta glucan impregnated with CoQ10 (CoQ10-iBG). Numerous polymers like chitosan, pectin, gum arabic and sodium alginate have been successfully processed with PGX, impregnated with bioactives and tested for various applications. As an example, a new chemical complex formed of alginate impregnated with ibuprofen has been successfully developed in collaboration with McMaster

University with promising results for treating burn wounds in mice animal models (study submitted for publication). These new chemical complexes can be used as delivery systems for a wide range of applications.

- Subsequent to year-end, we received a Licence from Health Canada for a research programme focused on cannabis for medical use. We expect to develop delivery systems for cannabinoids and assess their bioavailability when administered under various forms (topical, oral/sublingual, inhalation).

4. Technology:

- Received patent issuance, with protection until March 2030, in Europe and the U.S. for a technology to increase concentration of avenanthramides in oats.
- Granted patent for PGX technology in India, a very large potential market.
- Performed technical upgrades of PGX pilot plant in Edmonton. Key learnings pave the way for the scale-up of the technology at the commercial level. As part of an ongoing feasibility study, several manufacturers and existing supercritical plants have been visited during the last year and a decision is pending regarding the choice of equipment and its future location. Commercial scale up level is critical for out-licensing applications produced using our game-changing PGX Technology.

- **Bioprocessing Operations:** while transitioning between two manufacturing sites, our dedicated production team successfully responded to the growing market demand for the base business by producing over 200 metric tons of active ingredients in 2019.

  We are excited to have successfully passed audits from additional key major customers for the new Edmonton-based facility and to have obtained a Site Licence from the Health Canada Natural Product Directorate. This Licence enables the Company to manufacture, package, label, release and distribute final products.

- **Marketing and Sales:** we have mostly sold through our distribution network while continuing to build the brand for the Juvente^{DC} line of products which we expect to offer as a delivery system strategy directly to the end-user. Such delivery systems being composed of new chemical complexes produced using the PGX technology.

- **Financial:** fiscal 2019 showed an 11% growth in sales driven by an impressive 86% increase of beta glucan. The beta glucan sales were mostly to China which more than doubled in 2019 compared to 2018. Our fundamentals are solid with financials showing positive working capital, positive cash flows, and a very healthy balance sheet. Full financial results and explanations are contained in our year-end Financial Statements and accompanying MD&A.

In summary, we are very pleased with 2019 key achievements and initiatives which we fully credit to our remarkable team.

Moving forward, we will continue to expand our cosmeceuticals base business allowing the Company to pursue the transition to a new business model from a contract manufacturer to a biopharmaceutical company involved in nutraceuticals and pharmaceuticals. We also remain very active in business development activities for out-licensing of selective Ceapro products and continue to advance conversations with potential partners. The commercial scale-up of our PGX technology being a critical milestone for the signing of a licensing and distribution agreement.

We strongly believe Ceapro has all the key components for success based on a very solid foundation, a highly competent team, a healthy balance sheet, and a strong technology and product portfolio with the potential to access key large markets.

We are very grateful to our dedicated employees, customers and you, our loyal Shareholders, for your continued support and confidence.

GILLES R. GAGNON, M.Sc., MBA, ICD.D
PRESIDENT AND CEO

GLENN ROURKE, MBA, ICD.D
CHAIR, BOARD OF DIRECTORS

April 14, 2020

Unique Enabling Technologies and Bioprocessing Expertise

Ceapro's unique expertise lies in the identification, extraction, production, and selling of unique active ingredients originating from natural sources.

Our development projects have focused on our expertise in oats and developing new innovative natural health care products to address global needs. Oats have a host of well-documented health care benefits. However, in order to exploit these opportunities, numerous challenges must be overcome, including securing adequate and quality feedstock, developing proper formulations, achieving manufacturing scale-up, and completing scientific testing. Our activities over the last few years have focused on overcoming these challenges and we have been thrilled with the results to date.

Beta glucan and avenanthramides are the two bioactives extracted from oats that are at the core of our revenue base business in cosmeceuticals. They are currently sold under liquid formulations. Given their well-known properties respectively as cholesterol reducer and anti-inflammation products, we successfully overcame the challenge to develop them into formulations that comply with nutraceutical and/or pharmaceutical grade requirements. In order to achieve these goals and to improve efficiencies, we are pleased to report on these successful developments using the following enabling technologies.

Extraction Fractionation Process

This is the current process whereby active ingredients are extracted from an ethanol phase, the resulting liquid formulation being the basis for subsequent development of solid formulations. In order to penetrate the large potential nutraceutical and pharmaceutical markets, we needed to produce large quantities through improved processes. Validation trials conducted in a new manufacturing facility in South Edmonton showed excellent results from the use of innovative semi continuous processes as compared to previous single batch processes. Following **successful** audits conducted by major customers over the last two years, we are thrilled to report that the new site has been certified according to international quality systems and that a Site Licence has been obtained from the Health Canada Natural Product Directorate. This Licence enables the Company to manufacture, package, label, release and distribute final products.

Proprietary Drying Technologies

- **Chromatography for High Purity of Avenanthramides**

An in-house project using a proprietary technology was conducted to generate a new product with a unique class of avenanthramides (AVs). The scientific literature reports that AVs offer natural alternatives to treat inflammation-based diseases such as atherosclerosis and inflammatory bowel disease. The issue is that they are only available at small concentration in oats and there is no established method to concentrate and purify them on a large manufacturing scale to conduct controlled large clinical studies.

Using an innovative scale-up chromatography technology, Ceapro's researchers proved that it was possible to scale up the technology and demonstrated that the theoretical recovery of AVs and binding capacity extrapolated from laboratory trials is achievable on a pilot scale. Ceapro also generated vital stability data which proves that dried purified AVs are very stable even in extreme storage environments. During these experiments, Ceapro researchers generated high purity dried AVs powder that was sent for physical characterization and used in clinical trials at the University of Minnesota. Positive results obtained from these clinical trials support anti-inflammatory claims for avenanthramides as a nutraceutical product and should allow Ceapro to incorporate AVs into new natural based pharmaceutical formulations to treat some inflammation-based diseases.

- **Pressurized Gas eXpanded Technology (PGX)**

The PGX Technology is a patented platform technology that is used to convert biopolymers into high-value materials overcoming the challenges associated with the drying of high molecular weight biopolymers using conventional technologies. Moderate PGX processing conditions, involving the use of CO2+ethanol for water removal while precipitating the biopolymer, minimizes any potential degradation. Variation of the processing parameters results in dried biopolymers of very low bulk density in different forms (fine powders, microfibrils, fine or coarse granules etc.).

The modular PGX demo plant at Ceapro Inc. for processing a wide range of biopolymers into tailor-made bioactive delivery systems.

The PGX Technology is versatile. It can generate unique morphologies, precipitate and dry aqueous polymers, micronize and purify biopolymers, create novel structures, and impregnate bioactives. At Ceapro, it was used to convert liquid aqueous beta glucan (BG) product into highly soluble dry microfibrils or free-flowing powder with tuneable particle size distribution. Such dry BG product has typically been difficult or not economically feasible to produce with conventional techniques (spray drying, freeze drying). The PGX drying process can reduce the Company's carbon footprint, increase the shelf-life of BG, and lead to novel high value products including functional foods, nutraceuticals, cosmeceuticals, and pharmaceuticals. The successful production of beta glucan tablets was a major milestone in the development of the technology as well as in paving the way to transform Ceapro's business model.

The Technology can also be used for the development of new chemical complexes. As an example, Ceapro successfully developed a new water-soluble chemical complex composed of oat beta glucan impregnated with Co-enzyme Q10 (CoQ10-iBG). This new complex should bring clinical benefits when added to various formulations in the personal and healthcare sectors. Numerous other polymers like chitosan, pectin, gum arabic and alginates have been successfully processed with PGX and tested for various applications. These polymers, when impregnated with other bioactives, can be used as delivery systems for a wide range of applications under various forms of administration (topical, oral/sublingual, inhalation). Wound healing is a promising area of application for PGX polymers. A new chemical complex formed of alginate impregnated with ibuprofen has been successfully developed in collaboration with McMaster University with promising results for treating burn wounds in mice animal models (study submitted for publication).

The PGX Technology has been licensed from the University of Alberta for all industrial applications. The Technology is patented in U.S., Canada, Europe, and India. As a result of much work, Ceapro has built a pilot scale unit in its Edmonton-based facility thereby transforming laboratory findings into innovative products, which are the fruit of multidisciplinary collaboration and strong partnerships, and which have led to ongoing research and several development initiatives. The next step is to scale up the Technology at the commercial level. As part of a feasibility study, several manufacturers and existing supercritical plants have been visited during the last year and a decision is pending regarding the choice of equipment and its future location. Commercial scale-up level is critical for out-licensing applications produced using PGX Technology.

The Technology has been presented at national and international conferences and received excellent feedback and many inquiries from other industries. Several scientific articles were published in peer reviewed journals. Results from the studies with newly developed chemical complexes confirmed the versatility of the Technology and the potential to develop delivery systems for use in topical skin applications or for fast acting oral drug delivery systems. PGX becomes an extraordinary and unique game-changing technology.

There is a tremendous value in these new enabling technologies, a value that is complementary to Ceapro's traditional bioprocessing business.

We expect to be able to commercialize some of our development projects into new products for the medicinal food, nutraceutical, or pharmaceutical markets. Our next stories provide an update on these projects and what they mean for Ceapro.

From Plant to Pill

Healthcare: Our Near-Term and Long-Term Catalysts

Our strategic path is clear: while continuing to grow our customer base and presence in the personal care market, we will explore and clinically validate new product applications for our value drivers, avenanthramides and beta glucan, in nutraceutical and pharmaceutical markets.

AVENANTHRAMIDES

In addition to cosmetics applications, it has been suggested that when taken orally, Ceapro's flagship product, avenanthramides, could be beneficial in serious conditions like inflammatory bowel syndrome, atherosclerosis, colon cancer, and joint inflammation. These findings led to the idea that avenanthramides could be developed as an active pharmaceutical ingredient (API).

Through the use of our enabling technologies described in the previous sections, Ceapro successfully developed a highly purified and well-characterized pharmaceutical grade powder formulation to be used in pre-clinical and clinical trials for targeted indications.

Update and Ceapro's Opportunity

- **Functional Food**

Ceapro's second generation of highly concentrated avenanthramides was used in human bioavailability and bioefficacy studies conducted at the University of Minnesota under the guidance of avenanthramide expert, Dr. Lili Ji. The clinical program assessing anti-inflammatory properties of avenanthramides in exercise-induced inflammation was successfully completed in 2018. Results showing the anti-inflammation properties of avenanthramides were presented at the prestigious American Society of Nutrition Conference held in Boston in June 2018 and data demonstrating the immunoregulatory mechanism of action of avenanthramides in alleviating exercise-induced inflammation were presented on May 31, 2019 at the Worldwide Sports Medicine Conference held in Orlando, Florida. These positive results support anti-inflammatory claims for avenanthramides as a nutraceutical product.

- **Pharmaceutical Program (Anti-Inflammatory Product)**

Positive results obtained from the bioavailability and bioefficacy studies are paving the way for inclusion into food products as well as for the initiation of similar studies using a new pharmaceutical grade tablet of avenanthramides for further clinical studies with avenanthramides as a potential treatment for some inflammation-based diseases. Such a long-term clinical program would be conducted with a pharmaceutical partner.

BETA GLUCAN

Ceapro's value driver product, beta glucan, is also well known for its cholesterol lowering properties as well as modulating glucose metabolism. The high purity of the powder obtained with our Pressurized Gas eXpanded (PGX) Technology led us to further the development of beta glucan beyond the personal care market into nutraceutical and/or pharmaceutical markets using beta glucan to target metabolic diseases.

Update and Ceapro's Opportunity

- **Functional Drink**

Following successful impregnation studies using PGX-processed dried beta glucan as a matrix, Ceapro successfully developed a new water-soluble chemical complex composed of oat beta glucan (BG) impregnated with well-known energy booster Co-enzyme Q10 (CoQ10). Following the successful characterization of the physico-chemical properties of the new chemical complex (CoQ10-iBG) and the first-time demonstration that Co-enzyme Q10 can be uniformly dispersed in water, Ceapro conducted a bioavailability study demonstrating that CoQ10 reaches targeted tissues and is better absorbed than commercially available formulations. Three scientific articles were published in peer reviewed journals on the physicochemical properties of the new chemical complex CoQ10-iBG. Discussions are ongoing **with potential partners to out-license the new CoQ10-iBG complex** to be sold as part of a functional drink and/or for other potential applications.

- **Nutraceutical Program (Cholesterol Reducing Product)**

Health Canada has approved a clinical protocol to assess the safety and efficacy of beta glucan as a cholesterol reducer. This placebo-controlled pilot trial led by the prestigious Montreal Heart Institute involves eleven research centers in Canada who will have enrolled 264 patients upon completion.

While the original protocol was designed to assess beta glucan as add-on therapy to statins, Health Canada has recently approved an amendment to the protocol to allow evaluation of subjects with confirmed pathophysiological condition of hyperlipidemia who voluntary request to be treated with beta glucan only, without regular dosing of statins. This significant change allowing patients to receive beta glucan as a stand-alone therapy should accelerate patient enrollment and expand target addressable patient population. Given beta glucan's recognized health claims, Ceapro is pioneering the development of a natural product to be positioned as a nutraceutical that will have been developed according to the highest pharmaceutical standards.

Personal Care: Our Base Business

Our strategic path forward is clear: we will grow our customer base and presence in the personal care cosmetic market while continuing to explore and clinically validate different formulations and new product applications for our value drivers, avenanthramides and beta glucan. We are also exploring bringing high-end value finished products directly to the end-user.

AVENANTHRAMIDES

Ceapro's flagship product, avenanthramides, is a group of polyphenol compounds found exclusively in oats. This group of molecules work synergistically and represent the active component of oats that provides relief for a host of skin conditions, such as eczema, chicken-pox, and insect bites. Ceapro is the only company in the world producing the only commercial natural avenanthramide product which is featured in several of the best-selling global personal care brands.

Update and Ceapro's Opportunity

In line with our vision to reach out directly to high-end customers with finished products, we will continue to offer the new Juvente line of products containing our two value drivers avenanthramides and beta glucan. They will be mostly offered though electronic channels (www.juventeDC.com). We also expect to work closely with some major key customers who are looking for second and third generation products to be included in some well-known brands. High concentrations of both liquid and powder formulations of avenanthramides produced from our proprietary enabling technologies will be used for that purpose. New active ingredients like saponins which also belong to a polyphenol class of compounds will be explored. They are very potent antioxidants of interest for the personal care industry.

BETA GLUCAN

Ceapro's value driver product, beta glucan, is known as the anti-aging active ingredient included in well-known brands. Studies have shown that beta glucan is highly effective in stimulating collagen synthesis and can play a prominent role in skin restructuring and wound healing. Of all existing beta glucans, the beta glucan extracted from oats is the only one that is water soluble. Ceapro has shown the unusual ability of its oat-based beta glucan to penetrate skin deeply despite its large molecular weight. As a result, the use of oat beta glucan as a potential delivery system has attracted interest from multiple parties looking to improve the delivery of their therapeutic products. The potential to impregnate or encapsulate bioactives into formulations of beta glucan has increased the interest in determining its potential as a delivery platform for cosmeceuticals.

Update and Ceapro's Opportunity

The offering of Juvente^{DC} products containing both our two value drivers avenanthramides and beta glucan is in line with our delivery platform strategic approach. Given significant improvements observed in some subjects suffering from eczema and psoriasis, these observations suggest that beta glucan acts as a carrier to help avenanthramides penetrate deeper to reach the dermis level of the skin where they would exert their beneficial effect.

Based on these observations and on the successful development of new chemical complex like oat beta glucan impregnated with Co-enzyme Q10 (CoQ10-iBG), and using our PGX technology, we expect to develop several combinations of bioactive substances to be included in a Juvente^{DC} line of cosmeceuticals products. Some of them like anti-inflammatory products and cannabinoids would potentially necessitate a prescription by a healthcare professional.

:: Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the years ended December 31, 2019 and 2018, the financial position as at December 31, 2019, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 14, 2020. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2019, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2018, which are prepared in accordance with International Financial Reporting Standards (IFRS), and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2018. All comparative percentages are between the years ended December 31, 2019 and 2018 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Ceapro's future plans and operations as at April 14, 2020 and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

VISION, CORE BUSINESS, AND STRATEGY

Ceapro is incorporated under the Canada Business Corporations Act; and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc., are incorporated under the Alberta Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Juvente^{DC} Inc. (Juvente), is a wholly-owned subsidiary incorporated under the Canada Business Corporations Act.

Ceapro is a growth stage biotechnology company. Our primary business activities relate to the development and commercialization of natural products for personal care, cosmetic, human, and animal health industries using proprietary technology, natural, renewable resources, and developing innovative products, technologies, and delivery systems.

Our products include:

- A commercial line of natural active ingredients, including *beta glucan, avenanthramides (colloidal oat extract*), *oat powder, oat oil*, *oat peptides,* and *lupin peptides,* which are marketed to the personal care, cosmetic, medical, and animal health industries through our distribution partners and direct sales;
- A commercial line of natural anti-aging skincare products, utilizing active ingredients including beta glucan and avenanthramides, which are marketed to the cosmeceuticals market through our wholly-owned subsidiary, Juvente^{DC} Inc.; and
- Veterinary therapeutic products, including an *oat shampoo*, an *ear cleanser,* and a *dermal complex/conditioner*, which are manufactured and marketed to veterinarians in Japan and Asia.

Other products and technologies are currently in the research and development or pre-commercial stage. These technologies include:

- A potential platform using our *beta glucan* formulations to deliver compounds used for treatments in both personal and healthcare sectors;
- A variety of novel enabling technologies including Pressurized Gas eXpanded drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds; and
- The development of new technologies to increase the content of avenanthramides to high levels to enable new innovative products to be introduced to new markets including functional foods, nutraceuticals, and botanical drugs.

Our vision is to be a global leader in developing and commercializing products for the human and animal health markets through the use of proprietary technologies and renewable resources. We act as innovator, advanced processor, and formulator in the development of new products. We deliver our technology to the market through distribution partnerships and direct sales efforts. Our strategic focus is in:

- Identifying unique plant sources and technologies capable of generating novel active natural products;
- Increasing sales and expanding markets for our current active ingredients;
- Developing and marketing additional high-value proprietary therapeutic natural products;
- Developing and improving manufacturing technologies to ensure efficiencies; and
- Advancing new partnerships and strategic alliances to develop new commercial active ingredients with various formulations to expand our markets.

As a knowledge-based enterprise, we will also expand and strengthen our patent portfolio and build the necessary infrastructure to become a global biopharmaceutical company.

Our business growth depends on our ability to access global markets through distribution partnerships. Our marketing strategy emphasizes providing technical support to our distributors and their customers to maximize the value of our technology and product utilization. Our vision and business strategy are supported by our commitment to the following core values:

- Adding value to all aspects of our business;
- Enhancing the health of humans and animals;
- Discovering and commercializing new, therapeutic natural ingredients and bioprocessing technologies;
- Producing the highest quality work possible in products, science, and business; and
- Developing personnel through guidance, opportunities, and encouragement.

To support these objectives, we believe we have strong intellectual and human capital resources and we are developing a strong base of partnerships and strategic alliances to exploit our technology. The current economic environment provides challenges in obtaining financial resources to fully exploit opportunities. To fund our operations, Ceapro relies upon revenues primarily generated from the sale of active ingredients, and the proceeds of public and private offerings of equity securities, debentures, government grants and loans, and other investment offerings.

RISKS AND UNCERTAINTIES

Biotechnology companies are subject to a number of risks and uncertainties inherent in the development of any new technology. General business risks include: uncertainty in product development and related clinical trials and validation studies, the regulatory environment, for example, delays or denial of approvals to market our products, the impact of technological change and competing technologies, the ability to protect and enforce our patent portfolio and intellectual property assets, the availability of capital to finance continued and new product development, and the ability to secure strategic partners for late stage development, marketing, and distribution of our products. To the extent possible, we pursue and implement strategies to reduce or mitigate the risks associated with our business.

The Company has exposure to financial instrument and other risks as follows:

A) CREDIT RISK

Trade and other receivables

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 97% of trade receivables are due from one distributor at December 31, 2019 (December 31, 2018 – 90% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	December 31, 2019 $	December 31, 2018 $
Not yet due	**1,481,978**	2,492,721
Less than 30 days past due	**1,954,651**	498,579
Less than 60 days past due, more than 30 days past due	**–**	24,044
More than 60 days past due	**222,912**	–
Total	**3,659,541**	3,015,344

The Company has not assessed any trade receivables past due as impaired and the receivable more than 60 days past due was collected subsequent to the year-end.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company-wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward-looking estimates. The expected credit losses calculated for December 31, 2019 and December 31, 2018 are not significant and have not been recognized.

Other receivables represent amounts due for research program claims, government goods and services taxes, and scientific research and development tax credits. The collectability risk is deemed to be low because of the good quality credit rating of the counter-parties.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $1,857,195 at December 31, 2019 (December 31, 2018 – $1,844,134) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

There are no impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's trade and other receivables and cash and cash equivalents. The Company does not hold any collateral as security.

B) LIQUIDITY RISK

In meeting its financial obligations, the Company may be exposed to liquidity risks if it is unable to collect its trade and other receivables balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. In order to manage this liquidity risk, the Company regularly reviews its aged trade receivables listing to ensure prompt collections. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

The following are the contractual maturities of the Company's financial liabilities and obligations as at December 31, 2019:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	1,291,204	–	–	–	1,291,204
Long-term debt	115,383	–	–	–	115,383
CAAP loan	83,884	83,884	–	–	167,768
Total	**1,490,471**	**83,884**	**–**	**–**	**1,574,355**

C) MARKET RISK

Market risk is comprised of interest rate risk, foreign currency risk, and other price risk. The Company's exposure to market risk is as follows:

1. Foreign currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company.

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (USD)	
		−1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial assets			
Accounts receivable	2,817,028	28,170	(28,170)
Financial liabilities			
Accounts payable and accrued liabilities	330,297	(3,303)	3,303
Total increase (decrease)		24,867	(24,867)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2019.

2. Interest rate risk

The Company has minimal interest rate risk because its long-term debt agreements are all at fixed rates.

D) SHARE PRICE RISK

Ceapro's share price is subject to equity market price risk, which may result in significant speculation and volatility of trading due to the uncertainty inherent in the Company's business and the technology industry.

There is a risk that future issuance of common shares may result in material dilution of share value, which may lead to further decline in share price. The expectations of securities analysts and major investors about our financial or scientific results, the timing of such results, and future prospects, could also have a significant effect on the future trading price of Ceapro's shares.

E) PEOPLE AND PROCESS RISK

A variety of factors may affect Ceapro's future growth and operating results, including the strength and demand for the Company's products, the extent of competition in our markets, the ability to recruit and retain qualified personnel, and the ability to raise capital.

Ceapro's consolidated financial statements are prepared within a framework of IFRS selected by management and approved by the Board of Directors. The assets, liabilities, revenues, and expenses reported in the consolidated financial statements depend to varying degrees on estimates made by management. An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain and if different estimates that could have been used would have a material impact. The significant areas requiring the use of management estimates relate to provisions made for impairment of non-financial assets and goodwill, inventory valuation, amortization of property and equipment and intangible assets, the recognition and valuation of tax liabilities and tax assets, provisions, the assumptions used in determining share-based compensation, and the assumptions used to value royalty obligations. These estimates are based on historical experience and reflect certain assumptions about the future that we believe to be both reasonable and conservative. Actual results could differ from those estimates. Ceapro continually evaluates the estimates and assumptions.

F) LOSS OF KEY PERSONNEL

Ceapro relies on certain key employees whose skills and knowledge are critical to maintaining the Company's success. Ceapro always strives to identify and retain key employees and always strives to be competitive with compensation and working conditions.

G) INTERRUPTION OF RAW MATERIAL SUPPLY

Interruption of key raw materials could significantly impact operations and our financial position. Interruption of supply could arise from weather-related crop failures or from market shortages. Ceapro attempts to purchase key raw materials well in advance of their anticipated use and is in-licensing technologies from third parties to reduce this risk.

H) ENVIRONMENTAL ISSUES

Violations of safety, health, and environmental regulations could limit operations and expose the Company to liability, cost, and reputational impact. In addition to maintaining compliance with national and provincial standards, Ceapro maintains internal safety and health programs.

I) REGULATORY COMPLIANCE

As a natural extract producer, Ceapro is subject to various regulations and violation of these could limit markets into which we can sell. Ceapro has introduced a range of procedures which will ensure that Ceapro is well prepared for new regulations and obligations that may be required.

J) LEGAL MATTERS

In the normal course of operations, the Company may be subject to a variety of legal proceedings, including commercial, product liability, employment as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources, and cause us to incur significant expenses. Furthermore, because litigation is inherently unpredictable, and can be very expensive, the results of any such actions may have a material adverse effect on our business, operations, or financial condition.

K) ACQUISITIONS

With our strategic growth plan to expand and transition into nutraceuticals and pharmaceuticals, some of this growth may occur through acquisitions. These transactions may involve acquisitions of entire companies and/or acquisitions of selected assets of companies. Potential difficulties relating to acquisitions include integrating acquired operations, systems and businesses, retaining customer, supplier, employee, or other business relationships of acquired operations, and not achieving anticipated business volumes. The inability to realize the anticipated benefits of acquisitions could adversely affect our business and operating results.

L) FAIR VALUE AND IMPAIRMENT

The Company relies on forecasts and estimates in its evaluation of the fair value of financial instruments and the recoverable amounts of non-financial assets including goodwill in relation to impairment testing. The accuracy of such forecasts are inherently vulnerable to assumptions related to the timing of future events, the size of anticipated markets, forecasted costs, and the expected growth of sales. The inability to support the carrying value of goodwill and

intangible assets in periods subsequent to acquisitions could require write-downs that adversely affect our operating results.

M) PUBLIC HEALTH CRISIS

The Company is exposed to risks related to pandemics or epidemics such as the ongoing Covid-19 virus pandemic. The Company could experience disruptions in our raw materials supply chain, in our manufacturing operations, and our shipping activities as a result of quarantines, facility closures, travel and logistics restrictions, and other limitations in connection with the outbreak. Covid-19 may adversely affect our operations, our suppliers, and our customers. While we would expect this to be temporary, there is uncertainty around the duration of the pandemic and its broader impact. The extent to which the pandemic will impact the Company's results will depend on further developments which are highly uncertain and cannot be predicted with great certainty.

CHANGES IN ACCOUNTING POLICIES

IFRS 16 "LEASES"

In January 2016, the IASB released IFRS 16 "Leases" replacing IAS 17 "Leases" and related interpretations. The new standard eliminates the classification of leases as either operating or finance leases for lessees and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. IFRS 16 is effective for reporting periods beginning on or after January 1, 2019.

The Company has adopted IFRS 16, effective January 1, 2019, using the modified retrospective approach and has not restated prior periods for the impact of IFRS 16. Comparative information is still reported under IAS 17 and IFRIC 4.

On initial adoption, the Company applied the following practical expedients permitted under the standard:

- Short-term leases and leases of low value assets (less than $5,000) that have been identified at January 1, 2019 are not recognized on the Consolidated Balance Sheet.
- Leases with terms ending within 12 months of January 1, 2019 are treated as short-term leases and have not been recognized on the Consolidated Balance Sheet.
- Contracts that were not previously identified as containing a lease under the previous standard have not been reassessed under IFRS 16.
- Initial direct costs were excluded from the measurement of right-of-use assets for the purpose of initial measurement on transition.
- A single discount rate was used for remaining lease payments on leases with similar characteristics.
- The Company elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.
- Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 5.24%.

The Company quantified the impact of IFRS 16 adoption on the 2019 opening consolidated balance sheet. On transition to IFRS 16, the Company recognized right-of-use assets and lease liabilities. This non-cash adjustment has been excluded from the Statement of Cash Flows. There was no impact on opening retained earnings.

The impact on transition is summarized below:

January 1, 2019	$
Recognition of right-of-use assets	3,306,743
Recognition of lease liabilities	3,306,743

The following is a reconciliation of total operating lease commitments at December 31, 2018 to the lease liabilities recognized at January 1, 2019:

	$
Operating lease commitments disclosed at December 31, 2018	2,363,044
Impact of reasonably certain extension options	1,980,023
Leases with a lease term of 12 months or less	(20,478)
Operating lease liabilities before discounting	4,322,589
Discounted using incremental borrowing rate	(1,015,846)
Total lease liability recognized under IFRS 16 at January 1, 2019	3,306,743

Accounting policy applicable from January 1, 2019

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- The Company has the right to direct the use of the identified assets throughout the period of use. The Company assesses whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is measured at an amount equal to the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected not to recognize right-of-use assets or lease liabilities for short-term leases and leases of low-value assets. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the balance sheet, right-of-use assets have been included in property and equipment.

As a lessor

As a lessor, the Company classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not. Lease payments received under operating leases are recognized as income on a straight-line basis over the lease term.

Accounting policy applicable before January 1, 2019

Leases are classified as finance or operating leases. A lease is classified as a finance lease if it effectively transfers substantially the entire risks and rewards incidental to ownership.

At the commencement of the lease, the Company recognizes finance leases as an asset acquisition and an assumption of an obligation in the consolidated balance sheet at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the incremental borrowing rate is used. The interest element of the lease payment is recognized as finance cost over the lease term to achieve a constant periodic rate of interest on the remaining balance of the liability. Any initial direct costs of the lessee are added to the amount recognized as an asset. The useful life and depreciation method is determined on a consistent basis with the Company's policies for property and equipment. The asset is depreciated over the shorter of the lease term and its useful life.

All other leases are accounted for as operating leases, wherein payments are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized in profit or loss on a straight-line basis as an integral part of the total lease expense.

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017

CONSOLIDATED INCOME STATEMENT

$000s EXCEPT PER SHARE DATA	**2019**	**%**	2018	%	2017	%
Total revenues	**12,880**	**100%**	11,593	100%	12,926	100%
Cost of goods sold	**7,435**	**58%**	5,455	47%	5,654	44%
Gross margin	**5,445**	**42%**	6,138	53%	7,272	56%
Research and product development	**2,394**	**19%**	2,666	23%	1,606	12%
General and administration	**2,952**	**23%**	3,000	26%	2,841	22%
Sales and marketing	**425**	**3%**	225	2%	32	0%
Finance costs	**261**	**2%**	119	1%	137	1%
(Loss) Income from operations	**(587)**	**–5%**	128	1%	2,656	21%
Royalty provision – Ceapro Inc.	**–**	**0%**	–	0%	(779)	–6%
Royalty provision – Ceapro Technology Inc.	**–**	**0%**	–	0%	(1,375)	–11%
Impairment on intangible assets	**–**	**0%**	(430)	–4%	–	0%
Impairment on goodwill	**–**	**0%**	(219)	–2%	–	0%
Gain on settlement of royalty provisions	**–**	**0%**	723	6%	–	0%
Other expenses	**(549)**	**–4%**	(1,123)	–10%	(929)	–7%
Loss before tax	**(1,136)**	**–9%**	(921)	–8%	(427)	–3%
Income tax (expense) benefit	**3**	**0%**	605	5%	(531)	–4%
Net loss	**(1,133)**	**–9%**	(316)	–3%	(958)	–7%
Basic net loss per common share	**(0.015)**		(0.004)		(0.013)	
Diluted net loss per common share	**(0.015)**		(0.004)		(0.013)	

The following sections discuss the consolidated results from operations.

REVENUE

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2019**	2018	CHANGE	**2019**	2018	CHANGE
Total revenues	**12,880**	11,593	11%	**3,721**	4,467	−17%

Revenue of $12,880,000 for the year ended December 31, 2019 was 11% higher than the comparative year. The increase in sales revenue was primarily driven by an 86% increase in the sale of beta glucan (mostly made to China) which was partially offset by an 8% decrease in sales of avenanthramides. The higher sales revenue was also partially due to a higher U.S. dollar relative to the Canadian dollar compared to the comparative year, which positively impacted revenue by approximately $148,000.

Total sales revenue for the fourth quarter ended December 31, 2019 amounted to $3,721,000 compared to $4,467,000 for the fourth quarter ended December 31, 2018, which represented a decrease of 17% or $746,000. The decrease in sales revenues for the fourth quarter of 2019 was primarily a result of a decrease in the sale of avenanthramides of 34% in that quarter offset by a 242% increase in sales of beta glucan over the comparative quarter. The lower sales revenue was also partially due to a lower U.S. dollar relative to the Canadian dollar compared to the comparative quarter, which negatively impacted revenue by approximately $22,000.

EXPENSES

COST OF GOODS SOLD AND GROSS MARGIN

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2019**	2018	CHANGE	**2019**	2018	CHANGE
Sales	**12,880**	11,593	11%	**3,721**	4,467	−17%
Cost of goods sold	**7,435**	5,455	36%	**2,107**	2,051	3%
Gross margin	**5,445**	6,138	−11%	**1,614**	2,416	−33%
Gross margin %	**42%**	53%		**43%**	54%	

Cost of goods sold is comprised of the direct raw materials required for the specific formulation of products, as well as direct labour, quality assurance and control, packaging, transportation costs, plant costs, and amortization on plant and equipment assets. Aside from labour, rent, quality control related expenses, overhead, and property plant and equipment amortization, the majority of costs are variable in relation to the volume of product produced or shipped.

During the year ended December 31, 2019, cost of goods sold was $7,435,000 which was $1,1980,000 higher than the comparative year representing an increase of 36%. The increase in cost of goods sold was greater than the increase in revenue which has contributed to an overall decrease in the gross margin percentage from 53% to 42%.

The most significant reason for the increase in cost of goods sold relates to amortization of the Edmonton facility during the year as commissioning activities were substantially completed in the fourth quarter of 2018. The increase in amortization relating to the manufacturing facility was approximately $994,000. This represents approximately 50% of the increase in cost of goods sold compared to the prior year and represents approximately 19% of total cost of goods sold for the current year. If this increase in non-cash expense was excluded from cost of goods sold, the resulting gross margin percentage in the current year would be approximately 50%. Other factors that impacted cost of goods sold for

the current year include higher salaries and benefits expense from additional hires the Company incurred while scaling up the new site, the inclusion of costs previously charged to other expenses prior to the completion of commissioning, the inclusion of new lease amortization from the adoption of the new lease standard, and higher repairs and maintenance costs compared to the prior year ending December 31, 2019. The gross margin was also negatively impacted from the sale of an overall lower margin product mix sold compared to the prior year.

During the fourth quarter of fiscal 2019, cost of goods sold was $2,107,000 which was higher than the comparative quarter by $56,000 or 3%. This increase in cost of goods sold occurred despite lower sales in the current quarter compared to the prior quarter, and has contributed to an overall decrease in the gross margin percentage from 54% to 43%.

Consistent with the results for the year, a significant reason for the increase in cost of goods sold relates to the addition of amortization from the Edmonton facility although it is less significant than that observed for the year because amortization relating to the manufacturing facility commenced in the comparative quarter of 2018. The increase in amortization relating to the manufacturing facility was approximately $79,000 for the fourth quarter. This represents approximately 4% of total cost of goods sold for the current period. If this increase in non-cash expense was excluded from cost of goods sold, the resulting gross margin percentage for the current quarter would be approximately 45%.

Cost of goods sold for the fourth quarter ended December 31, 2019 was also impacted by the same other factors that impacted cost of goods sold in the current year. The gross margin for the current quarter was also negatively impacted from the sale of a lower margin product mix compared to the prior quarter.

RESEARCH AND PRODUCT DEVELOPMENT

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2019**	2018	CHANGE	**2019**	2018	CHANGE
Salaries and benefits	**935**	862		**213**	275	
Regulatory and patents	**303**	208		**23**	40	
Clinical studies	**890**	1,150		**235**	294	
Other	**266**	446		**3**	62	
Total research and product development expenditures	**2,394**	2,666	−10%	**474**	671	−29%

During the year ended December 31, 2019, research and development expenses have decreased by 10% or $272,000. The decrease is primarily due to lower expenditures on the beta glucan clinical study during the current period and lower expenditures on other projects offset by higher salaries and benefits expense and higher patent maintenance.

During the quarter ended December 31, 2019, research and development expenses decreased by 29% or $197,000. The decrease is primarily due to lower expenditures during the quarter related to the pilot clinical study for the development of beta glucan as a cholesterol reducer, partially due to lower salaries and benefits expense, and partially due to lower expenditures on other projects compared to the prior quarter.

The costs for the beta glucan study during the year ended 2019 primarily relate to fees paid to the Montreal Heart Institute for the initiation of service contracts, coordination and management of the research centers engaged in the study, preparatory work for the recruitment and enrollment of patients, and further development of the study. The decreased cost for the current quarter was also due to a lower rate of patient enrollment due to an expected amendment to the protocol by Health Canada.

Research and development salaries expense was higher than the prior year primarily because salaries directly relating to the commissioning of the manufacturing plant were capitalized in the prior year, whereas no salaries have been capitalized in the current year as commissioning was substantially completed at the end of fiscal 2018. This increase has been partially offset due to receiving approximately $154,000 in grant funding in the current year compared to approximately $106,000 of funding in the comparative year. Research and development salaries were lower in the current quarter primarily due to the timing of grant funding receipts; in the fourth quarter of 2019 approximately $74,000 of grant funding was received, and there was no grant funding received in the comparative quarter of 2018.

Regulatory and patents expense will vary from period to period based on the timing of filings and maintenance payments. In the current year, the increase in patent expense primarily relates to maintenance payments for the new European patents, relating to the Company's Pressurized Gas Expanded (PGX) Technology, which were not previously incurred. This expense will continue to remain at higher levels as the Company continues to secure patent protection for its various in-licensed enabling technologies.

Expenditures on other projects are lower in the current fourth quarter and year ending December 31, 2019, due to lower expenditures on some PGX projects that have been completed. Although the project expenditures are lower in the current periods, the Company intends to continue to prioritize increased investment in research and development to be in line with the Company's business model of focusing on investing in its various enabling technologies and research on product development and new applications for its value driving products. The fourth quarter is also notably lower due to the receipt of scientific research and development tax credits that offset the expense; the amount received in the comparative quarter was lower.

GENERAL AND ADMINISTRATION

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2019**	2018	CHANGE	**2019**	2018	CHANGE
Salaries and benefits	**734**	968		**163**	223	
Consulting	**480**	480		**120**	120	
Board of directors compensation	**219**	161		**48**	41	
Insurance	**137**	145		**36**	30	
Accounting and audit fees	**103**	116		**18**	17	
Rent	**62**	112		**15**	33	
Public company costs	**462**	327		**83**	82	
Travel	**94**	115		**18**	26	
Depreciation and amortization	**358**	270		**90**	99	
Legal	**39**	40		**3**	2	
Other	**264**	266		**80**	69	
Total general and administration expenses	**2,952**	3,000	-2%	**674**	742	-9%

General and administration expense for the year ended December 31, 2019 decreased by $48,000 or 2% over the prior year. The overall decrease was primarily due to decreases in salaries and benefits expense and rent expense offset by an increase in depreciation and amortization expense, an increase in public company costs, and an increase in Board of Directors compensation.

Salaries and benefits expense is lower than the prior year, partially due to a non-recurring recruitment charge in the comparative year, partially due to lower share-based payment expenses in the current year, and partially due to lower wage expense overall in the current year. The non-cash share-based compensation granted in the comparative year impacted management and administration but not directors, whereas the share-based compensation in the current

year impacted directors' compensation and management and administration compensation. As a result, although overall salaries and benefits are lower in the current year from lower share-based payment expense, director compensation is higher.

The Company's adoption of IFRS 16, the lease standard, resulted in lower rent expense and higher depreciation and amortization expense from the depreciation of the right-of-use assets in the current year. The comparative year has not been restated to reflect the new standard consistent with the transition elections followed.

The increase in public company expenses in the current year primarily related to public company communication costs relating to the Company's new website and expansion into social media platforms. These new programs did not commence until mid-way through the third quarter of 2018 so these expenses will not be reflected in the comparative year until then. The increase in the current year is also due to costs expended on the process to uplist to the OTCQX. For the fourth quarter ended December 31, 2019, these factors had little impact and the expense was comparable with the comparative quarter.

For the quarter ended December 31, 2019, the overall general and administration expense decreased by $68,000 or 9% from the comparative quarter. The increases and decreases in specific general and administration expenses during the quarter are consistent with the reasons as noted for the current year.

SALES AND MARKETING

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2019**	2018	CHANGE	**2019**	2018	CHANGE
Sales and marketing salaries	**180**	81		**58**	42	
Courses, conferences & advertising	**243**	142		**77**	74	
Other	**2**	3		**–**	1	
Total sales and marketing	**425**	226	88%	**135**	117	15%

The Company's marketing strategy was changed during the year ended 2018, resulting in an increase in sales and marketing efforts to sell active ingredients directly to end-users, not just through a distribution network, and to sell cosmeceutical products directly to high-end value customers from the Juvente line.

Courses, conferences, and advertising expense is higher in year ended December 31, 2019, primarily due to attendance at trade shows, marketing strategy development, the development of advertising on multiple media platforms including television, the website, and social media, as well as preparing publications for print and web advertising.

The year ending December 31, 2019 also reflects the salaries of a new director of marketing and sales who was hired in the third quarter of 2018 and additional staff hired to support the new sales and marketing strategy.

FINANCE COSTS

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2019**	2018	CHANGE	**2019**	2018	CHANGE
Interest on long-term debt	**6**	10		**(1)**	3	
Interest on lease liabilities	**166**	–		**41**	–	
Transaction costs	**4**	16		**–**	4	
Royalties	**55**	55		**–**	–	
Accretion of CAAP loan	**30**	38		**8**	10	
	261	119	119%	**48**	17	182%

Finance costs increased by 119% or $142,000 in the year ended December 31, 2019 from $119,000 in 2018 to $261,000.

The increase is primarily attributable to the adoption of IFRS 16 on January 1, 2019, the new lease standard, which resulted in the recognition of discounted lease liabilities on the consolidated balance sheet. As a result of the new standard, the Company now recognizes lease interest on the lease liabilities.

The increase in finance costs from lease interest is partially offset from lower amortization on debt transaction costs, lower accretion expense on the CAAP loan, and lower interest on long-term debt attributable to the Company's declining long-term debt balance, where a larger portion of the monthly payments are being allocated to principal repayment and less to interest.

Finance costs for the quarter ended December 31, 2019 increased by $31,000, from $17,000 in 2018 to $48,000, due to the same factors that impacted the year.

OTHER EXPENSES

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2019**	2018	CHANGE	**2019**	2018	CHANGE
Foreign exchange loss (gain)	**196**	1		**79**	(64)	
Quality management system	**177**	606		**–**	196	
Other (income) expense	**(15)**	(52)		**1**	(12)	
Plant relocation costs	**191**	568		**40**	99	
	549	1,123	−51%	**120**	219	−45%

During the year ended December 31, 2019, other expenses decreased by $574,000 or 51% from $1,123,000 to $549,000. The decrease was primarily due to lower expenditures relating to plant relocation costs and the quality management system offset partially by an increase in foreign exchange loss in the current year compared to the prior year.

During the fourth quarter ended December 31, 2019, other expenses decreased by $99,000 or 45% from $219,000 in 2018 to $120,000. The overall decrease was due to the same reasons as noted for the year.

Plant relocation costs represent costs incurred relating to the new manufacturing facility that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized. The new manufacturing facility was substantially commissioned in the fourth quarter of 2018, so certain costs like rent

expense and utilities incurred in the comparative year are now reflected in cost of goods sold. Costs relating to the additional bays of the facility that have not commenced construction are still reflected in this balance as well as any remaining validation and commissioning costs.

The Company's quality management system project, designed to focus policies towards consistently meeting or exceeding customer requirements and to facilitate the Company's strategic goal of transitioning to nutraceutical and pharmaceutical markets, was substantially completed in the second quarter of 2019. This resulted in significantly lower expense in the current year and quarter as compared to the comparative periods in 2018.

The Company's foreign exchange losses and gains are primarily due to the translation of US dollar denominated accounts receivable and accounts payable balances, and from the timing of the realization of these balances. Foreign exchange will fluctuate between the quarters due to fluctuations between the US dollar and the Canadian dollar. Most of the foreign exchange loss at December 31, 2019 is a result of unrealized translation losses. The foreign exchange gains and losses are also impacted by the translation of the Company's Euro denominated debt which was fully repaid in the first quarter of 2019. During the year ended December 31, 2019, the Euro debt translation resulted in a $300 gain compared to a $5,200 loss in the comparative year.

DEPRECIATION AND AMORTIZATION EXPENSE

In the year ended December 31, 2019, the total depreciation and amortization expense of $1,832,000 (2018 – $579,000) was allocated as follows: $356,000 to general and administration expense (2018 – $270,000), $9,000 to inventory (2018 – $2,000), and $1,467,000 (2018 – $307,000) to cost of goods sold.

Depreciation expense is higher than the comparative year partially due to an increase in depreciation due to the substantial completion of commissioning activities on the Company's new extraction/fractionation facility during the fourth quarter of 2018, which has resulted in amortization of $1,237,000 on the associated manufacturing equipment and leasehold improvements in the year ended December 31, 2019 compared to $233,000 in the comparative year. The increase was also partially due to the adoption of the IFRS 16 lease standard which resulted in depreciation of $338,000 of the right-of-use asset in the year ended December 31, 2019 compared to $NIL in the comparative year. These increases have been offset by incurring no amortization expense in the current year on intangible assets from Juvente which were impaired at the end of fiscal 2018. In the year ended December 31, 2018, this resulted in amortization of $59,000.

SEGMENTED FINANCIAL PERFORMANCE

The Company has two operating segments, the active ingredient product technology industry and the cosmeceutical industry. The cosmeceutical industry segment is operated through Juvente, a private company which was acquired on October 25, 2017.

Juvente is in the start-up phase, so the segment does not contribute significantly to revenue generation at this time. The segment's expenses during the current and comparative quarters relate to general and administrative costs and marketing costs. There was not a significant change in general and administrative expenses in Juvente between the current and comparative fourth quarter and year, but for sales and marketing, the current year expense is approximately $183,000 higher than the comparative year. The increase is primarily related to marketing and sales salaries and increased advertising which is more fully discussed in the sales and marketing section. While sales and marketing expense for the fourth quarter of 2019 is higher than the fourth quarter of 2018, the expenses are relatively comparable.

Juvente was acquired to execute on a strategic market diversification strategy to expand the Company's product portfolio with the development of formulations that utilize the Company's two value drivers, beta glucan and avenanthramides, and to enable the Company to enter into the high-end cosmeceuticals market and market directly to the end-user. The development of the formulations and new market would assist the Company with the strategy of utilizing the formulations as a delivery system for various bio-actives.

QUARTERLY INFORMATION

The following selected financial information is derived from Ceapro's unaudited quarterly financial statements for each of the last eight quarters, all of which cover periods of three months. All amounts shown are in Canadian currency.

	2019				2018			
$000s EXCEPT PER SHARE DATA	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total revenues	**3,721**	**2,908**	**3,054**	**3,197**	4,467	2,125	2,731	2,270
Net income (loss)	**166**	**(104)**	**(559)**	**(637)**	444	(299)	(166)	(295)
Basic net income (loss) per common share	**0.002**	**(0.001)**	**(0.007)**	**(0.008)**	0.006	(0.004)	(0.002)	(0.004)
Diluted net income (loss) per common share	**0.002**	**(0.001)**	**(0.007)**	**(0.008)**	0.006	(0.004)	(0.002)	(0.004)

Ceapro's quarterly sales and results primarily fluctuate due to variations in the timing of customer orders, different product mixes, and changes in the capacity to manufacture products.

Net loss in the third quarter of 2019 includes amortization of $457,000 (second quarter of 2019 includes amortization of $457,000 and the first quarter of 2019 includes amortization of $456,000), which is significantly higher than comparative quarters in 2018 and 2017, primarily due to amortization on the Company's Edmonton manufacturing facility which substantially completed commissioning activities in the fourth quarter of 2018. Amortization in the fourth quarter of 2019, while still higher, is more comparable to the fourth quarter of 2018. The depreciation expense for each of the quarters in 2019 also includes depreciation of right-of-use assets relating to the adoption of IFRS 16, the lease standard, in the first quarter of 2019.

Net income in the fourth quarter of 2018 includes the recognition of impairment losses on intangible assets of $430,533 and goodwill of $218,606. These impairment charges are non-cash charges that do not have an adverse effect on the Company's liquidity or cash flows from operating activities and will not have an impact on future operations.

Net loss in the first quarters of 2019 and 2018 includes non-cash share-based payment accounting charges of $98,000 (2018 – $185,000) primarily relating to the granting of stock options and restricted share units in January 2019 and January 2018. These accounting charges are higher than in any of the comparable quarters presented, as convertible securities granted during these periods were not as significant.

Net loss in the third quarter of 2018 includes the recognition of a gain on the settlement of royalty provisions in the amount of $722,895.

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EMPLOYED

$000s	**December 31, 2019**	December 31, 2018
Non-current assets	**20,858**	19,190
Current assets	**6,411**	6,135
Current liabilities	**(1,741)**	(1,360)
Total assets less current liabilities	**25,528**	23,965
Non-current liabilities	**3,216**	750
Shareholders' equity	**22,312**	23,215
Total capital employed	**25,528**	23,965

Non-current assets increased by $1,668,000 primarily due to the recognition of $3,307,000 right-of-use assets for buildings leased pursuant to the adoption of IFRS 16 and the acquisition of $338,000 of property and equipment net of grants. These property and equipment additions were offset by a depreciation provision of $1,829,000, an amortization provision on licenses of $3,000, and the utilization of deposits of $2,000. The overall increase in non-current assets was also offset by utilization of $142,000 of deferred tax assets pursuant to the Company's annual tax provision.

Current assets increased by $276,000 primarily due to an increase in trade and other receivables in the amount of $644,000 offset by a decrease in prepaid expenses and deposits of $339,000 from the transfer of deposits on new equipment received which were transferred to property and equipment. The overall increase was also impacted by a decrease in inventories of $42,000 and an increase in cash of $13,000 primarily from operations.

Current liabilities totaling $1,741,000 increased by the net amount of $381,000 primarily due to the recognition of a current portion of lease liabilities of $265,000 from the adoption of IFRS 16 and an increase in accounts payable of $341,000. These increases were offset partially by a decrease in the current portion of long-term debt of $225,000.

Non-current liabilities totaling $3,216,000 increased by the net amount of $2,466,000 primarily due to the recognition of long-term lease liabilities of $2,776,000 from the adoption of IFRS 16 offset by repayment of the CAAP loan net of accretion of $54,000, the repayment of and reclassification to current portion of long-term debt of $110,000, and to the reduction of the net deferred tax liability of $145,000 pursuant to the Company's annual tax provision.

Equity of $22,312,000 at December 31, 2019 decreased by $903,000 from equity of $23,215,000 at December 31, 2018 primarily due to recognition of a net loss of $1,133,000 for the year ended December 31, 2019 which was offset by the recognition of share-based payment compensation of $213,000 and the issuance of shares on the exercise of stock options of $17,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the years ended December 31, 2019 and 2018.

	Year Ended Ended December 31,		Quarter Ended Ended December 31,	
$000s	**2019**	2018	**2019**	2018
Sources of funds:				
Funds generated from operations adjusted for non-cash items	**1,113**	–	**699**	1,081
Grant used for capital assets	**–**	124	**–**	–
Deposits relating to investing activities	**188**	–	**–**	–
Share issuance	**17**	–	**–**	–
	1,318	124	**699**	1,081
Uses of funds:				
Funds used in operations adjusted for non-cash items	**–**	(7)	**–**	–
Purchase of property and equipment	**(332)**	(1,093)	**7**	(88)
Purchase of leasehold improvements	**(6)**	(85)	**(6)**	(75)
Deposits relating to investing activities	**–**	(77)	**–**	(57)
Changes in non-cash working capital items relating to operating activities	**(60)**	(2,075)	**(1,100)**	(2,866)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	**(47)**	(127)	**(102)**	(9)
Interest paid	**(171)**	(41)	**(39)**	(6)
Repayment of long-term debt and CAAP loan	**(423)**	(949)	**(134)**	(296)
Repayment of lease liabilities	**(266)**	–	**(64)**	–
	(1,305)	(4,454)	**(1,438)**	(3,397)
Net change in cash flows	**13**	(4,330)	**(739)**	(2,316)

Net change in cash flow was an increase of $13,000 during the year ended December 31, 2019 in comparison with a decrease of $4,330,000 for the year ended December 31, 2018. The primary reason for the difference relates to cash generated from operations of $882,000 in the current year compared to $2,122,000 of cash used in operations in the comparative period. Sales were approximately $1.3M higher in the current year, and included in the net loss for the year is approximately $1.8M of depreciation and amortization which does not impact cash flows, whereas the prior year had a significant amount of negative working capital adjustments reflecting the use of more cash in the prior year. The overall improvement in cash flows in the current year also partially relates to the acquisition of only $338,000 of property and equipment (of which the majority was already paid in deposits made in the prior year) during the current year compared to the acquisition of $1,178,000 of property and equipment and leasehold expenditures in the prior year. The property and equipment expenditures in the prior period related primarily to the commissioning and validation of the extraction/fractionation processes, and partially to the continued development of a pilot scale skid for the Company's PGX Technology for which grant funding was recognized. Another positive factor is that the Company only spent $423,000 on long-term debt and CAAP repayment in the current year versus $949,000 in the prior year as the Company continues to fully repay outstanding long-term debt balances.

Presentation of cash flows in the current period also reflects the Company's adoption of IFRS 16, the lease standard. Previously lease payments were reflected in operating cash flows, now lease payments are partially reflected as interest expense (also in operating cash flows) and partially as the repayment of lease liabilities in financing cash flows. The comparative period has not been restated for the adoption of the new standard consistent with the transition election chosen.

The Company has a positive working capital balance of $4,670,327 at December 31, 2019. The Company estimates that the cash flows generated by its existing operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, maintain capital investment, and service debt needs. However, the Company has several ongoing research and development projects, planned upcoming clinical trials, and planned installation of a new ethanol recovery system, and management will have to prioritize expenditures on those projects that are in line with our stated objectives to develop new product applications and transition to the nutraceutical sector which we consider will provide the most beneficial outcome and value to our shareholders.

To meet future requirements, Ceapro may raise additional cash through some or all of the following methods: public or private equity or debt financing, income offerings, capital leases, collaborative and licensing agreements, potential strategic alliances with partners, government programs, and other sources. There can be no assurance that the Company will be able to access capital when needed. The ability to generate new cash will depend on external factors, many beyond the Company's control, as outlined in the Risks and Uncertainties section. Should sufficient capital not be raised, Ceapro may have to delay, reduce the scope of, eliminate, or divest one or more of its discovery, research, or development technology or programs, any of which could impair the value of the business.

Total common shares issued and outstanding as at April 14, 2020 were 77,608,341 (April 9, 2019 – 77,048,341). In addition, 3,189,501 stock options as at April 14, 2020 (April 9, 2019 – 3,052,001 stock options and 280,000 restricted share units) were outstanding that are potentially convertible into an equal number of common shares at various prices.

GRANT FUNDING

a) The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the years from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to $671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended one year to September 30, 2013. All amounts claimed under the program are repayable interest free over eight years beginning in 2014. The Company received or recorded as receivable funding of $671,068 to December 31, 2013 under this program and no further funds are expected.

b) During the year ended December 31, 2015, the Company entered into a contribution agreement with Al-Bio Solutions for a non-repayable funding contribution of $800,000 to implement the scale-up of the Company's Enabling Pressurized Gas eXpanded (PGX) Technology. At December 31, 2017, the Company had expended $60,680 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the year ended December 31, 2018, the Company recognized $87,027 on eligible equipment and $52,293 on eligible expenses and received final payments totaling $200,000. The project was completed at December 31, 2018.

c) During the year ended December 31, 2016, the Company entered into a contribution agreement with the German-Canadian Centre for Innovation and Research to provide a non-repayable funding contribution of up to $247,856 for the advancement of the Company's PGX Technology. At December 31, 2017, the Company expended $30,986 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the year ended December 31, 2018, the Company received a final payment of $133,660 and recognized $36,494 as a reduction of capital expenditures and $66,180 as a reduction of research and development expenditures. The project was completed at December 31, 2018.

d) During the year ended December 31, 2019, the Company entered into a contribution agreement with the National Research Council of Canada's Industrial Research Assistance Program (NRC-IRAP) for non-repayable funding of up to a maximum $268,000 for costs incurred on the continued development of the Company's PGX Technology for the generation of biopolymers or drug delivery systems for deployment into the functional food, cosmetic, and drug delivery markets. During the year ended December 31, 2019, the Company received or recorded as a receivable $153,936 which was recorded as a reduction of research and development expenses. As at December 31, 2019, NRC-IRAP and the Company agreed to amend the contribution agreement to decommit $25,000 of the non-repayable funding and as a result, the Company anticipates receiving an additional $89,000 during fiscal 2020.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2019, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $973,000 (2018 – $825,000) and share-based payments expense for key management personnel was $123,000 (2018 – $214,000).

The amount payable to directors at December 31, 2019 was $40,000 (2018 – $40,000).

These transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

COMMITMENTS AND CONTINGENCIES

(a) During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company shall pay an annual royalty percentage rate of 2% of sales, payable every January 1st and July 1st, subject to a minimum annual royalty payment according to the schedule below:

Year	Amount
2012	nil
2013	$12,500
2014	$37,500
2015	$50,000
2016	$50,000

And $50,000 each year thereafter while the licence agreement remains in force. The agreements remain in force until the patents expire or are abandoned.

The licence agreement for the use of the intellectual property requires future royalty payments based on specific sales and is an executory contract. The licence agreement also does not represent an onerous contract. On this basis, upfront payments required to enter into the agreement are capitalized as a licence asset and all royalty payments under the agreement are recognized as they become due.

(b) During the year ended December 31, 2014, the Company entered into a licence agreement with the University of Alberta for the rights to an enabling pressurized gas expanded technology (PGX) that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients.

In accordance with the agreement and as amended on February 2, 2015, the Company shall pay the following royalties, payable on a semi-annual basis:

(a) a royalty of 3.5% of net sales generated from the field of pharmaceuticals;

(b) a royalty of 3.0% of net sales generated from the field of nutraceuticals;

(c) a royalty of 2.75% of net sales generated from the field of cosmetics;

(d) a royalty of 1.0% of net sales generated from the field of functional foods;

(e) a royalty of 3.0% of net sales generated from other fields.

The Company shall pay a minimum annual advance on earned royalties of $5,000 commencing March 1, 2017 and every year thereafter while the licence agreement remains in force.

The licence agreement for the use of the intellectual property requires future royalty payments based on specific sales and is an executory contract. The licence agreement also does not represent an onerous contract. On this basis, upfront payments required to enter into the agreement are capitalized as a licence asset and all royalty payments under the agreement are recognized as they become due.

(c) On August 24, 2018, the Company entered into a settlement agreement with AVAC Ltd. to settle outstanding royalty provisions with that company in the entirety. Pursuant to the terms of the settlement agreement, the royalty provisions were satisfied by a cash payment of $780,741 and by the issuance of 1,288,149 common shares of the Company, each with an issuance price of approximately $0.50 per share aggregating $650,000. The shares issued were subject to a four-month hold period and the share for debt conversion was accepted by the TSX Venture Exchange on September 20, 2018. As a result of the settlement, the Company recognized a gain on the settlement of the royalty provisions of $722,895 during the year ended December 31, 2018.

(d) In the normal course of operations, the Company may be subject to litigation and claims from customers, suppliers, and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

OUTLOOK

Ceapro's cosmeceuticals base business continues to grow and provides positive operating and cash flow results. We will continue to leverage on this solid cosmeceuticals base business allowing the Company to pursue the transition to a new business model from a contract manufacturer to a biopharmaceutical development company involved in nutraceuticals and pharmaceuticals. As part of new product development, the Company will pursue the development of formulations potentially allowing delivery of bioactives through different modes of administration (oral, topical, sub-lingual, nasal spray). The Juvente line of products will mostly be used for the development of topical/transdermal delivery systems using Ceapro's proprietary new chemical complexes developed through the use of PGX Technology for which we are currently looking at various scenarios and locations for commercial scale-up, a key step to secure partnerships. We expect to unveil the PGX strategy by mid-2020.

From a manufacturing standpoint and depending on the evolution of the COVID-19 pandemic, we expect to have completed the transition to the Edmonton site and have fully decommissioned the Leduc site by the end of Q3, 2020.

To date, the Company's business has not been significantly impacted by the COVID-19 pandemic. The Company has instituted additional preventative measures to ensure the highest level of safety for Ceapro's employees. The Company has also worked hard to mitigate any potential supply chain disruptions to ensure we can reliably continue to offer our high quality products throughout the pandemic and even beyond. Should the Company be able to service its customers without disruption, management believes the prospects for the Company remain strong for the upcoming year.

Ceapro has all the key components for success based on a solid foundation, a highly competent team, a healthy balance sheet, and a strong technology and product portfolio with the potential of getting into very large markets.

ADDITIONAL INFORMATION

Additional information relating to Ceapro Inc., including a copy of the Company's Annual Report and Proxy Circular, can be found on SEDAR at www.sedar.com.

:: Consolidated Financial Statements

MANAGEMENT'S REPORT

TO THE SHAREHOLDERS OF **CEAPRO INC.,**

The accompanying consolidated financial statements of Ceapro Inc. (the "Company"), and all information presented in this report, are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards. The consolidated financial statements include some amounts that are based on the best estimates and judgements of Management. Financial information used elsewhere in the report is consistent with that in the consolidated financial statements.

To further the integrity and objectivity of data in the consolidated financial statements, Management of the Company has developed and maintains a system of internal controls, which Management believes will provide reasonable assurance that financial records are reliable and form a proper basis for preparation of consolidated financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in the report principally through its Audit Committee. The Audit Committee is appointed by the Board, and all of its members are outside and unrelated Directors. The Committee meets periodically with Management and the external auditors to discuss internal controls over the financial reporting process and financial reporting issues, to make certain that each party is properly discharging its responsibilities, and to review quarterly reports, the annual report, the annual consolidated financial statements, management discussion and analysis, and the external auditor's report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Company's auditors have full access to the Audit Committee, with and without Management being present.

The consolidated financial statements have been audited by the Company's auditors, Grant Thornton LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

Sincerely,

SIGNED "Gilles Gagnon"
President and Chief Executive Officer

SIGNED "Stacy Prefontaine"
Chief Financial Officer

April 14, 2020

Grant Thornton

Independent Auditor's report

Grant Thornton LLP
1701 Scotia Place 2
10060 Jasper Avenue NW
Edmonton, AB
T6B 1S2

[T +1 780 422 7114
[F +1 780 426 3208

To the Shareholders of Ceapro Inc.

Opinion

We have audited the consolidated financial statements of Ceapro Inc. ("the Company"), which comprise the consolidated balance sheets as at December 31, 2019 and December 31, 2018 and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

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

- The information included in the Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

Grant Thornton

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Meghan DeRoo McConnan.

Edmonton, Canada

April 14, 2020

Grant Thornton LLP

Chartered Professional Accountants

CONSOLIDATED BALANCE SHEETS

	December 31, 2019 $	December 31, 2018 $
ASSETS		
Current Assets		
Cash and cash equivalents	**1,857,195**	1,844,134
Trade receivables	**3,659,541**	3,015,344
Other receivables	**46,812**	46,899
Inventories (note 4)	**669,005**	710,708
Prepaid expenses and deposits	**178,908**	518,219
	6,411,461	6,135,304
Non-Current Assets		
Investment tax credits receivable	**607,700**	607,700
Deposits	**85,755**	88,340
Licences (note 5)	**21,477**	24,440
Property and equipment (note 6)	**19,764,122**	17,947,967
Deferred tax assets (note 17 (b))	**378,643**	520,872
	20,857,697	19,189,319
TOTAL ASSETS	**27,269,158**	25,324,623
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**1,291,204**	949,878
Current portion of long-term debt (note 9)	**111,865**	336,956
Current portion of lease liabilities (note 10)	**265,123**	–
Current portion of CAAP loan (note 12)	**72,942**	72,942
	1,741,134	1,359,776
Non-Current Liabilities		
Long-term debt (note 9)	**–**	110,350
Long-term lease liabilities (note 10)	**2,775,627**	–
CAAP loan (note 12)	**61,580**	115,216
Deferred tax liabilities (note 17 (b))	**378,643**	524,280
	3,215,850	749,846
TOTAL LIABILITIES	**4,956,984**	2,109,622
Equity		
Share capital (note 11 (b))	**16,401,677**	16,320,522
Contributed surplus (note 11 (e))	**4,650,090**	4,501,444
Retained earnings	**1,260,407**	2,393,035
	22,312,174	23,215,001
TOTAL LIABILITIES AND EQUITY	**27,269,158**	25,324,623

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

Year Ended December 31,	**2019 $**	2018 $
Revenue (note 19)	**12,880,006**	11,592,666
Cost of goods sold	**7,434,654**	5,454,468
Gross margin	**5,445,352**	6,138,198
Research and product development	**2,393,607**	2,665,838
General and administration	**2,952,488**	3,000,005
Sales and marketing	**425,230**	225,549
Finance costs (note 15)	**260,684**	118,728
(Loss) income from operations	**(586,657)**	128,078
Other expenses (note 14)	**(549,379)**	(1,123,061)
Impairment of intangible assets (note 7)	**–**	(430,533)
Impairment of goodwill (note 8)	**–**	(218,606)
Gain on settlement of royalty provisions (note 18 (c))	**–**	722,895
Loss before tax	**(1,136,036)**	(921,227)
Income taxes		
Current tax recovery	**–**	4,263
Deferred tax benefit	**3,408**	601,427
Income tax benefit (note 17 (a))	**3,408**	605,690
Total comprehensive loss for the year	**(1,132,628)**	(315,537)
Net loss per common share (note 24):		
Basic	**(0.01)**	(0.00)
Diluted	**(0.01)**	(0.00)
Weighted average number of common shares outstanding (note 24):		
Basic	**77,188,505**	76,201,191
Diluted	**77,188,505**	76,201,191

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital $	Contributed surplus $	Retained earnings $	Total equity $
Balance December 31, 2018	16,320,522	4,501,444	2,393,035	23,215,001
Share-based payments (note 11 (c) & (d))	–	212,517	–	212,517
Share options exercised	28,217	(10,933)	–	17,284
Restricted share units vested (note 11 (d))	52,938	(52,938)	–	–
Net loss for the year	–	–	(1,132,628)	(1,132,628)
Balance December 31, 2019	16,401,677	4,650,090	1,260,407	22,312,174
Balance December 31, 2017	15,565,522	4,269,855	2,708,572	22,543,949
Shares issued for settlement of royalty provisions (note 11 (b))	650,000	–	–	650,000
Share-based payments (note 11 (c) & (d))	–	336,589	–	336,589
Restricted share units vested (note 11 (d))	105,000	(105,000)	–	–
Net loss for the year	–	–	(315,537)	(315,537)
Balance December 31, 2018	16,320,522	4,501,444	2,393,035	23,215,001

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,	2019 $	2018 $
OPERATING ACTIVITIES		
Net loss for the year adjusted for non-cash and working capital items	**(1,132,628)**	(315,537)
Adjustments for items not involving cash		
Finance costs	**171,249**	10,370
Transaction costs	**4,187**	15,682
Depreciation and amortization	**1,831,744**	578,603
Foreign exchange (gain) loss on long-term debt	**(307)**	5,211
Accretion	**30,248**	37,676
Deferred tax benefit	**(3,408)**	(601,427)
Share-based payments	**212,517**	336,589
Impairment of intangible assets	**–**	430,533
Impairment of goodwill	**–**	218,606
Gain on settlement of royalty provisions	**–**	(722,895)
Net loss for the year adjusted for non-cash items	**1,113,602**	(6,589)
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	**(644,197)**	(1,768,931)
Other receivables	**87**	166,613
Inventories	**41,703**	374,680
Prepaid expenses and deposits	**154,106**	(163,940)
Royalty provisions	**–**	(780,741)
Accounts payable and accrued liabilities relating to operating activities	**388,064**	97,345
Total changes in non-cash working capital items	**(60,237)**	(2,074,974)
Net loss for the year adjusted for non-cash and working capital items	**1,053,365**	(2,081,563)
Interest paid	**(171,249)**	(40,567)
CASH GENERATED FROM (USED IN) OPERATIONS	**882,116**	(2,122,130)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(332,186)**	(1,092,744)
Purchase of leasehold improvements	**(6,007)**	(85,148)
Deposits relating to investment in equipment	**187,790**	(77,203)
Accounts payable and accrued liabilities relating to investing activities	**(46,738)**	(127,093)
CASH USED IN INVESTING ACTIVITIES	**(197,141)**	(1,382,188)
FINANCING ACTIVITIES		
Stock options exercised	**17,284**	–
Repayment of long-term debt	**(339,321)**	(865,080)
Repayment of CAAP loan	**(83,884)**	(83,884)
Repayment of lease liabilities	**(265,993)**	–
Grant used for purchase of leaseholds, property and equipment	**–**	123,521
CASH USED IN FINANCING ACTIVITIES	**(671,914)**	(825,443)
Increase (decrease) in cash and cash equivalents	**13,061**	(4,329,761)
Cash and cash equivalents at beginning of the year	**1,844,134**	6,173,895
Cash and cash equivalents at end of the year	**1,857,195**	1,844,134

See accompanying notes

Cash and cash equivalents are comprised of $1,850,357 (2018 – $1,837,296) on deposit with financial institutions and $6,838 (2018 – $6,838) held in money market mutual funds.

:: Notes to Consolidated Financial Statements December 31, 2019 and 2018

1. NATURE OF BUSINESS OPERATIONS

Ceapro Inc. (the "Company") is incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange under the symbol CZO and on the OTCQX® Best Market under the symbol CRPOF. The Company's primary business activities relate to the development and marketing of various health and wellness products and technology relating to plant extracts.

The Company's head office address is 7824 51 Avenue NW, Edmonton, AB T6E 6W2.

2. SIGNIFICANT ACCOUNTING POLICIES

A) STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Board of Directors authorized these consolidated financial statements for issue on April 14, 2020.

B) BASIS FOR PRESENTATION

These consolidated financial statements have been prepared on the historical cost basis. All transactions are recorded on an accrual basis.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., Ceapro USA Inc., and Juvente^{DC} Inc.

All intercompany accounts and transactions have been eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

C) USE OF MANAGEMENT CRITICAL JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to make critical judgements, estimates, and assumptions that affect the reported amounts of certain 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 recorded during the reporting period. In making estimates and judgements, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management critical judgements

Policies that are critical for the presentation of the financial position and financial performance of the Company and that require judgements are discussed as follows.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional currency

The functional currency for the Company and each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates; the Company has determined the functional currency of each entity to be the Canadian dollar. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

Management estimates and assumptions

Policies that are critical for the presentation of the financial position and financial performance of the Company and that require estimates and assumptions are discussed below.

Taxation

The Company makes estimates in respect of recognition of the extent of deferred tax liabilities and tax assets. Full provision is made for future and current taxation at the rates of tax prevailing at the year-end unless future rates have been substantively enacted. These calculations represent our best estimate of the costs that will be incurred and recovered, but actual experience may differ from the estimates made and therefore affect future financial results. The effects would be recognized in profit or loss, primarily through taxation.

The Company recognizes the deferred tax benefit related to deferred tax assets to the amount that is probable to be realized. Assessing the recoverability of a portion or all of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred tax assets. Management considers projected future taxable income, the scheduled reversal of deferred tax assets, and tax planning strategies in making this assessment. The amount of the deferred tax asset considered realizable could change materially in future periods.

Investment tax credits

The recognition of investment tax credits relating to the Company's qualifying scientific research and experimental development expenditures requires management to estimate the amount and timing of recovery. The Company has assessed that it is probable that sufficient taxable income will be available to recognize the investment tax credits as recognized at December 31, 2019.

Impairment of non-financial assets and goodwill

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventory includes cost of purchase (purchase price, import duties, transport, handling, and other costs directly attributable to the acquisition of inventories), cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions are made in profit or loss of the current period on any difference between book value and net realizable value.

Property and equipment

The Company provides for depreciation expense on property and equipment at rates designed to amortize the cost of individual items and their material components over their estimated useful lives. Management makes estimates of

future useful life based on patterns of benefit consumption and impairments based on past experience and market conditions. Impairment losses and depreciation expenses are presented in profit or loss of the current period.

LICENCES

The Company amortizes licences over their estimated useful lives. Management makes estimates of future useful life based on patterns of benefit consumption, terms of licence agreements, and impairments based on past experience and market conditions. Impairment losses and depreciation expenses are presented in profit or loss of the current period.

ROYALTIES

When funding from royalty agreements is received, management is required to recognize a liability initially at fair value. To estimate the fair value of the obligation, the Company makes estimates of future cash flows and discounts those cash flows at an estimated prevailing market rate of interest for a similar instrument. Management updates the estimated future cash flows required under the royalty agreements at each reporting date to assess whether the value of obligation should be adjusted. The effects of any change in the obligation are recognized in profit or loss in the current period.

SHARE-BASED PAYMENTS

The fair value of share-based payments is determined using the Black-Scholes option pricing model based on estimated fair values at the date of grant. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the award. Changes in these assumptions can significantly affect the fair value estimate. For more information, see note 11.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, demand deposits, and all highly liquid short-term investments with original maturities of three months or less.

E) REVENUE RECOGNITION

The Company generates revenues from product sales. Revenue for the sale of product is recognized at the point in time when control or ownership of the product is transferred to the customer, generally when the products are shipped, and when collectability is probable.

Product revenues are derived primarily from standard product sales contracts. Contracts with customers do not provide for refunds or any other rights of return. The Company does not have any revenue contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As such, the Company does not adjust any of the transaction prices for the time value of money.

When an amount is received as an advance or a deposit from a customer, prior to the recognition of revenue, it results in a contract liability.

F) BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The consideration transferred by the Company to obtain control of a subsidiary is measured as the sum of the acquisition-date fair values of assets transferred, liabilities incurred, and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred except for costs related to shares issued in conjunction with the business combination.

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. In a business combination, when the fair value attributable to the Company's share of the net identifiable assets acquired exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill is carried at cost less accumulated impairment losses.

G) INVENTORIES

Inventories are valued at the lower of cost and net realizable value.

Costs of inventory include costs of purchase, costs of conversion, and any other costs incurred in bringing the inventories to their present location and condition. Costs of conversion include direct costs (materials and labour) and indirect costs (fixed and variable production overheads). Fixed overheads are allocated based on normal capacity. Raw materials are assigned costs by using a first-in-first-out cost formula and work-in-progress, and finished goods are assigned costs by using a weighted average cost formula.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

H) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Depreciation methods and rates are calculated as follows:

Manufacturing equipment	5 – 25 years straight-line
Office equipment	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	over the term of the lease
Right-of-use asset – buildings	4 to 12 years straight-line

Cost for property and equipment includes the purchase price, import duties, non-refundable taxes, and any other costs directly attributable to bringing the asset into the location and condition to be capable of operating. Significant parts of an item of property and equipment with different useful lives are recognized and depreciated separately. Depreciation commences when the asset is available for use. The asset's residual values, useful lives, and method of depreciation are reviewed at each financial year-end and adjustments are accounted for prospectively if appropriate. An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of an asset is included in profit or loss in the period the asset is derecognized.

I) INTANGIBLE ASSETS

Acquired

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

The Company records amortization of intangible assets with finite lives on a straight-line basis as the following annual rates, which approximate the useful lives of the assets:

Brands	10 years
Formulations	10 years
Website	3 years

Licences

Licences are recorded at cost and are amortized straight-line over the life of the licence.

Research and product development expenditures

Research costs are expensed when incurred. Product development costs are also expensed when incurred unless the Company can demonstrate the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(e) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset;

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Costs are reduced by government grants and investment tax credits where applicable.

Following initial capitalization of product development expenditures, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses. Amortization commences when product development is completed and the asset is available for use. It is amortized over the period of expected future economic benefit. The expected lives of assets are reviewed on an annual basis and if necessary, changes in useful lives are accounted for prospectively.

J) BORROWING COSTS

Borrowing costs are capitalized when such costs are directly attributable to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to prepare for its intended use. All other borrowing costs are recognized as an expense in the period in which they are incurred.

K) IMPAIRMENT OF NON-FINANCIAL ASSETS AND GOODWILL

For impairment assessment purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or CGUs). Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination.

Cash generating units to which goodwill has been allocated are tested for impairment at least annually. The carrying amounts of all other cash generating units or individual assets such as property and equipment and intangible assets with a finite life are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If such indication exists, the Company estimates the recoverable amount of the assets, which is the higher of its fair value less costs of disposal and its value in use. Value in use is estimated as the present value of future cash flows generated by this asset or CGU including eventual disposal. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and an impairment loss is recognized immediately in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimated recoverable amount and the carrying amount that would have been recorded, had no impairment loss been recognized previously. Any such recovery is recognized immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L) LEASES

Accounting policy applicable from January 1, 2019

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- The Company has the right to direct the use of the identified assets throughout the period of use. The Company assesses whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is measured at an amount equal to the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected not to recognize right-of-use assets or lease liabilities for short-term leases and leases of low-value assets. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these leases are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the balance sheet, right-of-use assets have been included in property and equipment.

As a lessor

As a lessor, the Company classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not. Lease payments received under operating leases are recognized as income on a straight-line basis over the lease term.

Accounting policy applicable before January 1, 2019

Leases are classified as finance or operating leases. A lease is classified as a finance lease if it effectively transfers substantially the entire risks and rewards incidental to ownership.

At the commencement of the lease, the Company recognizes finance leases as an asset acquisition and an assumption of an obligation in the consolidated balance sheet at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the incremental borrowing rate is used. The interest element of the lease payment is recognized as finance cost over the lease term to achieve a constant periodic rate of interest on the remaining balance of the liability. Any initial direct costs of the lessee are added to the amount recognized as an asset. The useful life and depreciation method is determined on a consistent basis with the Company's policies for property and equipment. The asset is depreciated over the shorter of the lease term and its useful life.

All other leases are accounted for as operating leases, wherein payments are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized in profit or loss on a straight-line basis as an integral part of the total lease expense.

M) FOREIGN CURRENCY TRANSLATION

The Canadian dollar is the functional and presentation currency of the Company and each of the Company's subsidiaries.

Foreign currency monetary assets and liabilities of the Company and its subsidiaries are translated using the period end closing rate; and non-monetary assets and liabilities, measured at historic cost, are translated at the rate of exchange at the date of the transaction. Foreign currency transactions are translated at the spot exchange rate which is in effect at the date of the transaction. Foreign currency gains or losses arising on translation are included in other operating income (loss) in profit or loss.

N) INCOME TAXES

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case the tax expense is also recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates and laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. Changes to these balances, including changes due to changes in income tax rates, are recognized in profit or loss in the period in which they occur.

Deferred tax assets are recognized to the extent future recovery is probable. Deferred tax assets are reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

O) GOVERNMENT GRANTS

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants are recognized as an offset to expenses over the periods in which the Company recognizes expenses which the grants are intended to compensate. Government grants related to assets are recognized as cost reduction of the assets and reduce depreciation over the expected useful life of the related assets.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P) INVESTMENT TAX CREDITS

Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided it is probable that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

Q) INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per common share is computed by dividing the income (loss) by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if the Company's convertible securities and convertible debentures were converted to common shares. Diluted income (loss) per common share is calculated by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effect of all dilutive potential common shares. Convertible securities are converted using the "treasury stock" method and convertible debentures are converted using the "if converted" method. When the Company is in a net loss position, the conversion of convertible securities is considered to be anti-dilutive.

R) SHARE-BASED PAYMENT ARRANGEMENTS

Stock option plan

The Company issues equity-settled share-based awards to eligible employees, directors, officers, and consultants under stock option plans that can vest over periods ranging from 2 years to 10 years and have a maximum term of ten years. Share-based payments are accounted for using the fair value method, whereby compensation expense related to these programs is recorded in profit or loss with a corresponding increase to contributed surplus. The fair value of options granted to employees, officers, and directors are determined using Black-Scholes option pricing model at the grant date and expensed over the vesting period. The fair value of options granted to consultants are determined with reference to the fair value of the goods or services received if the fair value of the goods and services received can be measured reliably. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates estimated forfeitures will change. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Restricted share unit plan

The Company has a restricted share unit plan ("RSU plan") which provides for the grant of restricted share units ("RSUs"). The obligations under the RSU plan can be settled at the Company's discretion through either cash or the issuance of common shares. The Company measures the cost of equity-settled share-based arrangements using the fair value method, whereby compensation expense related to the granting of RSUs is recorded in profit or loss with a corresponding increase to contributed surplus. The Company measures the value of RSUs by reference to the fair value at the grant date, which is usually represented by the quoted closing price of the Company's stock on the TSX-V exchange on the trading day immediately preceding the date of grant. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates estimated forfeitures will change.

S) PROVISIONS

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

T) FINANCIAL INSTRUMENTS

All financial instruments are measured at initial recognition at fair value plus any transaction costs that are directly attributable to the acquisition of the financial instruments except for transaction costs related to financial instruments classified as at fair value through profit or loss (FVPL) which are expensed as incurred.

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three categories into which the Company can classify its financial assets:

i) Amortized cost. A financial asset is measured at amortized cost if the contractual cash flows to repay the principal and interest are made at specific dates and if the Company's business model is to collect the contractual cash flows. Subsequent measurement uses the effective interest method, less any provision for impairment.

The Company's financial assets consist of cash and cash equivalents and trade and other receivables which are measured at amortized cost.

ii) Fair value through other comprehensive income (FVOCI). A financial asset is measured at FVOCI if the Company's business model is both to collect the contractual cash flows and sell assets and the contractual terms of the assets give rise on specified dates to cash flows that are solely repayments of principal and interest.

iii) Fair value through profit or loss (FVPL). A financial asset is measured at FVPL if it cannot be measured at amortized cost or FVOCI. At initial recognition, the Company may also irrevocably designate a financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Financial assets at FVPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

A financial asset is derecognized when the Company no longer has the rights to the contractual cash flows due to expiration of that right or the transfer of the risks and rewards of ownership to another party.

The Company recognizes a loss allowance for expected credit losses on its financial assets using the simplified approach which permits the use of the lifetime expected loss provision for all trade receivables. At each reporting date, the Company assesses impairment of trade receivables on a collective basis as its trade receivables possess shared credit risk characteristics and have been grouped based on days past due. The loss allowance will be based upon the Company's historical credit loss experience over the expected life of trade receivables and contract assets, adjusted for forward-looking estimates. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

A financial liability is initially classified as measured at amortized cost or FVPL. A financial liability is classified as measured at FVPL if it is held for trading, a derivative, contingent consideration of an acquirer in a business combination, or has been designated as FVPL on initial recognition. Financial liabilities at FVPL are measured at fair value with changes in fair value, along with any interest expense, recognized in profit or loss. All other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method.

The Company's financial liabilities consist of accounts payable and accrued liabilities, long-term debt, and the CAAP loan, which have been classified as financial liabilities at amortized cost and are measured at amortized cost using the effective interest method. A financial liability is derecognized when the obligation is discharged, cancelled, or expired.

3. CHANGES IN ACCOUNTING POLICIES

IFRS 16 "Leases"

In January 2016, the IASB released IFRS 16 "Leases" replacing IAS 17 "Leases" and related interpretations. The new standard eliminates the classification of leases as either operating or finance leases for lessees and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. IFRS 16 is effective for reporting periods beginning on or after January 1, 2019.

The Company has adopted IFRS 16, effective January 1, 2019, using the modified retrospective approach and has not restated prior periods for the impact of IFRS 16. Comparative information is still reported under IAS 17 and IFRIC 4.

On initial adoption, the Company applied the following practical expedients permitted under the standard:

- Short-term leases and leases of low value assets (less than $5,000) that have been identified at January 1, 2019 are not recognized on the Consolidated Balance Sheet.
- Leases with terms ending within 12 months of January 1, 2019 are treated as short-term leases and have not been recognized on the Consolidated Balance Sheet.
- Contracts that were not previously identified as containing a lease under the previous standard have not been reassessed under IFRS 16.
- Initial direct costs were excluded from the measurement of right-of-use assets for the purpose of initial measurement on transition.
- A single discount rate was used for remaining lease payments on leases with similar characteristics.
- The Company elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.
- Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 5.24%.

The Company quantified the impact of IFRS 16 adoption on the 2019 opening consolidated balance sheet. On transition to IFRS 16, the Company recognized right-of-use assets and lease liabilities. This non-cash adjustment has been excluded from the Statement of Cash Flows. There was no impact on opening retained earnings.

The impact on transition is summarized below:

January 1, 2019	$
Recognition of right-of-use assets	3,306,743
Recognition of lease liabilities	3,306,743

The following is a reconciliation of total operating lease commitments at December 31, 2018 to the lease liabilities recognized at January 1, 2019:

	$
Operating lease commitments disclosed at December 31, 2018	2,363,044
Impact of reasonably certain extension options	1,980,023
Leases with a lease term of 12 months or less	(20,478)
Operating lease liabilities before discounting	4,322,589
Discounted using incremental borrowing rate	(1,015,846)
Total lease liability recognized under IFRS 16 at January 1, 2019	3,306,743

4. INVENTORIES

The Company had the following inventories at the end of each reporting period:

	December 31, 2019 $	December 31, 2018 $
Raw materials	**483,203**	497,794
Work in progress	**37,307**	46,931
Finished goods	**148,495**	165,983
	669,005	710,708

Inventories expensed to cost of goods sold during the year ended December 31, 2019 are $7,233,113 (December 31, 2018 – $5,228,512).

During the year ended December 31, 2019, the Company decreased the carrying value of inventory by $64,223 (2018 – $72,245) due to estimated realizable values from certain finished goods being lower than cost. The write-down is included in cost of goods sold.

5. LICENCES

During the year ended December 31, 2014, and as amended on February 2, 2015, the Company entered into a licence agreement with the University of Alberta for the rights to a technology that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients for all industrial applications. The agreement expires after a term of 20 years or after the expiration of the last patent obtained, whichever event shall occur first. There is no initial licence fee, but the Company is required to make royalty payments (see note 18 (b)).

During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and commenced amortizing the licence over 15 years in April 2012. Amortization of $2,963 has been included in general and administration for the year ended December 31, 2019 (December 31, 2018 – $2,963) (see note 18 (a)).

Cost of licences	$
Balance – December 31, 2017	44,439
Additions	–
Balance – December 31, 2018	44,439
Additions	–
Balance – December 31, 2019	44,439

Accumulated amortization	
Balance – December 31, 2017	17,036
Amortization	2,963
Balance – December 31, 2018	19,999
Amortization	2,963
Balance – December 31, 2019	22,962

Net book value	
Balance – December 31, 2019	21,477
Balance – December 31, 2018	24,440

6. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Buildings $	Leasehold Improvements $	Total $
December 31, 2017	7,443,893	4,278,409	308,612	430,141	–	8,721,316	21,182,371
Additions	877,395	213,176	10,607	21,763	–	85,148	1,208,089
Cost reduced by grant	(87,027)	(36,494)	–	–	–	–	(123,521)
Transfers	(6,802,257)	6,802,257	–	–	–	–	–
December 31, 2018	1,432,004	11,257,348	319,219	451,904	–	8,806,464	22,266,939
Additions	86,822	224,779	–	20,585	–	6,007	338,193
Adjustment on transition to IFRS 16	–	–	–	–	3,306,743	–	3,306,743
December 31, 2019	1,518,826	11,482,127	319,219	472,489	3,306,743	8,812,471	25,911,875
Accumulated Depreciation							
December 31, 2017	–	2,966,715	187,251	360,276	–	288,290	3,802,532
Additions	–	320,338	26,210	24,826	–	145,066	516,440
December 31, 2018	–	3,287,053	213,461	385,102	–	433,356	4,318,972
Additions	–	781,557	21,152	22,602	338,490	664,980	1,828,781
December 31, 2019	–	4,068,610	234,613	407,704	338,490	1,098,336	6,147,753
Carrying Amount							
December 31, 2019	1,518,826	7,413,517	84,606	64,785	2,968,253	7,714,135	19,764,122
December 31, 2018	1,432,004	7,970,295	105,758	66,802	–	8,373,108	17,947,967

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Year Ended December 31, 2019	1,466,759	8,768	353,254	1,828,781
Year Ended December 31, 2018	307,028	1,501	207,911	516,440

Included in the net carrying amount of property and equipment at December 31, 2019, are right-of-use assets relating to buildings, in the amount of $2,968,253.

Included in the carrying amount of leasehold improvements is the amount of $1,027,364 (December 31, 2018 – $1,021,356) and the balance of equipment not available for use of $1,518,826 (December 31, 2018 – $1,432,004) which represent the accumulated expenditures incurred on the purchase of an ethanol recovery system, other equipment, and the engineering design for the related construction and installation of the system. At December 31, 2019, no amortization has commenced on these balances as construction and installation activities have not commenced.

7. INTANGIBLE ASSETS

Intangible Assets Balance	Cost $	Accumulated amortization $	Net book value $
December 31, 2017	499,600	9,867	489,733
Additions to and acquisition of intangible assets	–	–	–
Amortization expense	–	59,200	(59,200)
Impairment charges	–	430,533	(430,533)
December 31, 2018	499,600	499,600	–
Additions to and acquisition of intangible assets	–	–	–
Amortization expense	–	–	–
Impairment charges	–	–	–
December 31, 2019	499,600	499,600	–

The Company's intangible assets consist of identifiable intangible assets including formulations $285,000, brand $175,000, and website $39,600, that were acquired in a business combination of Juvente^{DC} Inc. on October 25, 2017.

The Company recognized an impairment loss of $430,533 on its intangible assets at December 31, 2018. The impairment was calculated in accordance with the Company's accounting policies on the basis of value in use. The calculation of value in use was based on the same key assumptions utilized in the goodwill impairment analysis (see note 8).

Amortization of $NIL (2018 – $59,200) has been included in general and administration expense.

8. GOODWILL

	December 31, 2019 $	December 31, 2018 $
Balance at beginning of the year	**–**	218,606
Impairment loss	**–**	(218,606)
Balance at end of the year	**–**	–

Goodwill of $218,606 arose from the acquisition of Juvente^{DC} Inc. and was allocated to that cash generating unit.

The Company performed its annual impairment test as at December 31, 2018. The recoverable amount of the CGU was estimated using value in use calculations. These calculations used pre-tax cash flows covering a five-year period based on estimated growth rates for revenue and financial budgets and financial forecasts approved by management. The present value of the expected cash flows was determined using a risk adjusted discount rate of 22.5%. The revenue growth rates and discount rate are the key assumptions in the calculation of value in use.

Management's key assumptions to cash flow forecasting include average annual increases in revenue of 159% from anticipated marketing campaigns and high gross margins based on the industry segment that the segment operates in; however, the CGU is in the start-up phase and there are a number of market conditions that impact the pace of development.

The carrying amount of the CGU exceeded the recoverable amount resulting in an impairment charge to goodwill in the amount of $218,606 and to intangible assets in the amount of $430,533 at December 31, 2018 (see note 7). Given that there are no longer any carrying amounts for intangible assets or goodwill, no further impairment will be taken.

Management believes that the methodology used to test impairment of goodwill, which involves a significant number of judgements and estimates, provides a reasonable basis for determining whether an impairment has occurred. Many factors used in determining whether or not goodwill is impaired involve inherent uncertainty. Therefore, actual results could differ from those estimated. It is reasonably likely that assumptions and estimates will change in future periods that may impact the recoverable amount of the CGU.

9. LONG-TERM DEBT

	December 31, 2019 $	December 31, 2018 $
Loan payable secured by certain intellectual property, due January, 2019 (a).	–	27,884
Loan payable secured by a general security agreement, due April, 2019 (b).	–	119,676
Loan payable secured by a general security agreement, due July, 2020 (c).	112,973	305,041
Transaction costs	(1,108)	(5,295)
	111,865	447,306
Less current portion	111,865	336,956
	–	110,350

Interest expense that has not been capitalized as a borrowing cost is presented under finance costs for the following years:

Year Ended December 31, 2019	5,813
Year Ended December 31, 2018	10,370

(a) During the year ended December 31, 2013, the Company entered into a loan agreement with its main distribution partner, which was secured by certain intellectual property and was due January 2, 2019. The loan, for 1 million Euro, was repayable in monthly blended principal and interest payments in the amount of 17,902 Euro, over 5 years at an interest rate of 2.85%. The loan has been fully repaid at December 31, 2019.

(b) During the year ended December 31, 2013, the Company entered into a loan agreement with AFSC, which was due April 1, 2019. The loan could be drawn to maximum $1,600,000 Canadian dollars, and was repayable over a 5-year term at an interest rate of 3.91%. Monthly blended principal and interest payments in the amount of $29,352 commenced on May 1, 2014. The loan was secured by a general security agreement covering all present and after acquired personal property subject to a subordination of the claim for certain intellectual property that was pledged as security for the long-term debt described in note 9(a). The loan has been fully repaid at December 31, 2019.

(c) During the year ended December 31, 2015, the Company entered into a loan agreement with AFSC, which is due July 1, 2020. The loan can be drawn to maximum $900,000 Canadian dollars, is repayable over a 5-year term, and has an interest rate of 3.84%. Monthly blended principal and interest payments in the amount of $16,483 commenced on August 1, 2015. The loan is secured by a general security agreement covering all present and after acquired personal property. Previously, the loan was also subject to a subordination of the claim for certain intellectual property that was pledged as security for the long-term debt described in note 9(a); however, that loan has been fully repaid and the security over the intellectual property has been discharged.

The Company is in compliance with all terms and conditions of its long-term debt agreements.

10. LEASE LIABILITIES

The Company has leases for manufacturing facilities, office space, and warehouse. The lease liabilities consist of leases of buildings. The leases have been discounted using a 5.24% interest rate.

	$
Balance at January 1, 2019	3,306,743
Additions	–
Interest expense	152,158
Lease payments	(418,151)
Balance at December 31, 2019	3,040,750
Less current portion	265,123
	2,775,627

Future minimum lease payments at December 31, 2019 are as follows:

	Within one year $	One to five years $	More than five years $	Total $
Lease payments	418,151	1,572,290	1,913,998	3,904,439
Finance charges	153,028	466,794	243,867	863,689
Net present values	265,123	1,105,496	1,670,131	3,040,750

The expense relating to payments not included in the measurement of the lease liabilities is as follows:

Year Ended December 31,	**2019 $**
Short-term leases	200,847

At December 31, 2019, the Company was committed to short term leases and the total commitment at that date was $65,396.

11. SHARE CAPITAL

A. AUTHORIZED

i. Unlimited number of Class A voting common shares. Class A common shares have no par value.

ii. Unlimited number of Class B non-voting common shares. There are no issued Class B shares.

B. ISSUED – CLASS A COMMON SHARES

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of the year	**77,045,008**	**16,320,522**	75,546,859	15,565,522
Shares issued for settlement of royalty provisions	**–**	**–**	1,288,149	650,000
Stock options exercised	**153,333**	**28,217**	–	–
Restricted share units vested	**137,500**	**52,938**	210,000	105,000
Balance at end of the year	**77,335,841**	**16,401,677**	77,045,008	16,320,522

In July 2019, the Company issued 137,500 common shares on the vesting and conversion of restricted share units (see note 11 (d)). This non-cash transaction has been excluded from the Statement of Cash Flows.

In August 2018, the Company issued 1,288,149 common shares pursuant to the settlement of royalty provisions (see note 18 (c)). The shares were issued pursuant to a share for debt conversion with an issuance price of approximately $0.50 per share aggregating to $650,000. This non-cash transaction has been excluded from the Statement of Cash Flows.

In January 2018, the Company issued 210,000 common shares on the vesting and conversion of restricted share units (see note 11 (d)). This non-cash transaction has been excluded from the Statement of Cash Flows.

The Company had 4,904,857 warrants outstanding at the beginning of the year ended December 31, 2018, with a weighted average exercise price of $1.44. All warrants expired unexercised in July 2018.

C. STOCK OPTION SHARE-BASED PAYMENT PLAN

The Company has granted stock options to eligible employees, directors, officers, and consultants under stock option plans that vest over two-year periods and have a maximum term of ten years.

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the year ended December 31, 2019, the Company granted 420,000 (December 31, 2018 – 350,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock, life of the options, and forfeiture rate. The weighted average risk-free rate used in 2019 was 1.91% (2018 – 2.03%), the weighted average expected volatility was 80% (2018 – 105%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years (2018 – 9 years), the forfeiture rate was 0% (2018 – 0%), the weighted average share price was $0.385 (2018 – $0.45), the weighted average exercise price was $0.385 (2018 – $0.45), and the expected dividends were nil (2018 – nil). The weighted average grant date fair value of options granted in the year ended December 31, 2019 was $0.25 (2018 – $0.38) per option.

The share-based payments expense recorded during the year ended December 31, 2019, relating to options granted in 2019, 2018, and 2017, was $108,714 (during 2018 relating to options granted in 2018 and 2017 – $231,589).

11. SHARE CAPITAL (CONTINUED)

A summary of the status of the Company's stock options at December 31, 2019 and December 31, 2018 and changes during the years ended on those dates is as follows:

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the year	**2,635,334**	**0.61**	2,388,668	0.63
Granted	**420,000**	**0.39**	350,000	0.45
Exercised	**(153,333)**	**0.11**	–	–
Expired	**–**	**–**	(100,000)	0.44
Forfeited	**(100,833)**	**0.40**	(3,334)	0.27
Outstanding at end of year	**2,801,168**	**0.62**	2,635,334	0.61
Exercisable at end of year	**2,454,501**	**0.65**	2,230,333	0.56

Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	**December 31, 2019 Number of Options**	December 31, 2018 Number of Options
0.25	0.39	2024	4.0	**395,834**	–
0.37	0.40	2028	–	**–**	80,000
0.10	0.33	2020	0.8	**60,000**	60,000
0.47	0.50	2028	8.0	**210,000**	210,000
0.56	0.59	2027	7.8	**90,000**	90,000
1.22	1.30	2027	7.3	**10,000**	10,000
1.65	1.75	2027	7.0	**400,000**	400,000
0.34	0.36	2025	5.3	**150,000**	150,000
0.47	0.50	2025	5.1	**100,000**	100,000
0.60	0.64	2025	5.0	**765,334**	765,334
0.37	0.27	2024	4.9	**150,000**	150,000
0.13	0.14	2024	–	**–**	25,000
0.08	0.10	2024	4.0	**300,000**	300,000
0.05	0.10	2023	3.0	**170,000**	295,000
			5.2	**2,801,168**	2,635,334

D. RESTRICTED SHARE UNIT SHARE-BASED PAYMENT PLAN

Effective June 1, 2017, the Company adopted a restricted share unit plan, which provides for the grant of restricted share units ("RSU's") to existing or proposed directors, employees, and consultants of the Company and its subsidiaries or any insider of the Company and its subsidiaries. Under the plan, the maximum number of common shares that may be reserved for issuance is fixed at 1,000,000. On the vesting of RSU's, the common shares of the Company will be issued from the same 10% rolling pool as the common shares issued under the stock option plan. The obligations under the RSU plan can be settled at the Company's discretion through either the issuance of cash or the issuance of common shares. The Company intends to settle the obligations through the issuance of common shares.

During the year ended December 31, 2019, the Company granted 280,000 RSU's to all employees, officers, and directors of the Company. The market value of each RSU granted was measured at $0.385, based on the quoted closing price of the Company's stock on the trading day immediately preceding the date of grant. The RSU's vest in two equal instalments, the first of which vests on July 1, 2019 and the second on January 1, 2020. The fair value of the RSU's is recognized over the vesting periods with reference to vesting conditions and the estimated RSU's expected to vest. On July 1, 2019, 137,500 RSU's vested and were converted to common shares during the year.

During the year ended December 31, 2018, the Company granted 210,000 RSU's to employees and officers. The fair market value of each RSU granted was measured at $0.50, based on the quoted closing price of the Company's stock on the trading day immediately preceding the date of grant. The RSU's vested immediately and were converted to common shares during the year.

The share-based payments expense recorded during the year ended December 31, 2019, relating to the granting of RSU's, was $103,803 (2018 – $105,000).

A summary of the status of the Company's RSU's at December 31, 2019 and December 31, 2018 and changes during the years ended on those dates is as follows:

	Year Ended December 31, 2019 Number of RSU's	Year Ended December 31, 2018 Number of RSU's
Balance at beginning of the year	**–**	–
Granted	**280,000**	210,000
Forfeited	**(10,000)**	–
Vested	**(137,500)**	(210,000)
Balance at end of year	**132,500**	–

Of the 1,000,000 RSU's authorized for grant under the RSU plan, at December 31, 2019, 510,000 RSU's are available for grant (December 31, 2018 – 790,000).

11. SHARE CAPITAL (CONTINUED)

E. CONTRIBUTED SURPLUS

	Year Ended December 31, 2019 $	Year Ended December 31, 2018 $
Balance at beginning of the year	**4,501,444**	4,269,855
Share-based payments (note 11 (c) & (d))	**212,517**	336,589
Restricted share units vested	**(52,938)**	(105,000)
Stock options exercised	**(10,933)**	–
Balance at end of the year	**4,650,090**	4,501,444

12. CAAP LOAN

The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily decommitted $668,557 as a result of lower anticipated project expenditures resulting in amended maximum possible funding under the agreement of $671,068. The end date for project expenditures and start date for repayments were also extended one year to September 30, 2013 and December 31, 2014 respectively. All amounts claimed under the program are repayable interest free over eight years beginning in 2014.

As the contributions are non-interest bearing, the fair value at inception is estimated as the present value of the principal payments required, discounted using the prevailing market rates of interest for a similar instrument which was estimated to be 15% per annum. The difference between the fair value of the contributions and the cash received is accounted for as a government grant.

The balance of repayable contribution is derived as follows:

Year Ended December 31,	**2019 $**	2018 $
Opening balance	**188,158**	234,366
Repayment	**(83,884)**	(83,884)
Accretion of CAAP loan	**30,248**	37,676
	134,522	188,158
Less current portion	**72,942**	72,942
	61,580	115,216

The principal repayment required for amounts received or receivable from inception to December 31, 2013 is $83,884 annually from 2014 through 2021.

13. RELATED PARTY TRANSACTIONS

Related party transactions during the periods not otherwise disclosed in these consolidated financial statements are as follows:

Year Ended December 31,	**2019 $**	2018 $
Key management salaries, short-term benefits, consulting fees, and director fees	**972,731**	824,579
Key management personnel share-based payments	**123,346**	213,605
Amount payable to directors	**39,884**	40,172

These transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

14. OTHER EXPENSES

Year Ended December 31,	**2019 $**	2018 $
Foreign exchange loss	**196,058**	1,233
Other income	**(15,047)**	(51,969)
Quality management system	**176,529**	605,879
Plant relocation costs	**191,839**	567,918
	549,379	1,123,061

15. FINANCE COSTS

Year Ended December 31,	**2019 $**	2018 $
Interest on long-term debt	**5,813**	10,370
Interest on lease liabilities	**165,436**	–
Transaction costs	**4,187**	15,682
Royalties	**55,000**	55,000
Accretion of CAAP loan	**30,248**	37,676
	260,684	118,728

16. EMPLOYEE BENEFITS

Year Ended December 31,	**2019 $**	2018 $
Employee benefits	**4,256,172**	3,812,401

Employee benefits include wages, salaries, bonuses, and CPP, EI, WCB contributions, share-based payment expense, and benefit premiums. Employee benefits are included in cost of goods sold, general and administration, research and product development, and sales and marketing expenses.

17. INCOME TAXES

(A) INCOME TAX EXPENSE (RECOVERY)

Components of income tax expense are:

	December 31, 2019 $	December 31, 2018 $
Current tax expense (recovery)	**–**	(4,263)
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	**(242,886)**	(92,678)
Tax rate changes and tax rate differences	**385,640**	(1,315)
Change in unrecognized deductible temporary differences	**(174,279)**	(502,027)
Prior period adjustments	**28,117**	(5,407)
Income tax benefit	**(3,408)**	(605,690)

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined Federal and Provincial corporate tax rates to income before tax. The statutory rate decreased due to reductions in the Alberta provincial rate. These differences result from the following:

	December 31, 2019 $	December 31, 2018 $
Loss before tax	**(1,136,036)**	(921,227)
Statutory income tax rate	**26.50%**	27.00%
Expected income tax (benefit)	**(301,050)**	(248,731)
Increase (decrease) resulting from:		
Non taxable items	**58,164**	93,227
Change in unrecognized deductible temporary differences	**(174,279)**	(502,027)
Change in tax rates and rate differences	**385,640**	61,511
Prior period adjustments	**28,117**	(9,670)
Income tax benefit	**(3,408)**	(605,690)

(B) RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

	December 31, 2019 $	December 31, 2018 $
Deferred tax assets are attributable to the following:		
Finance costs	**–**	923
Patents	**158,348**	179,686
Intangibles	**54,759**	69,121
Other	**1,172**	1,781
Share issuance costs	**40,654**	95,448
Lease liability	**699,373**	–
Non-capital losses	**1,898,423**	1,740,350
Deferred tax assets	**2,852,729**	2,087,309
Offset by deferred tax liabilities	**(2,474,086)**	(1,566,437)
Net deferred tax asset	**378,643**	520,872
Deferred tax liabilities are attributable to the following:		
Property and equipment	**(2,701,992)**	(1,902,837)
CAAP loan and long-term debt	**(8,084)**	(20,394)
Inventory	**(2,882)**	(3,407)
SRED investment tax credits	**(139,771)**	(164,079)
Deferred tax liabilities	**(2,852,729)**	(2,090,717)
Offset by deferred tax assets	**2,474,086**	1,566,437
Net deferred tax liability	**(378,643)**	(524,280)

17. INCOME TAXES (CONTINUED)

(C) UNRECOGNIZED DEFERRED TAX ASSETS

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2019 $	December 31, 2018 $
Deductible temporary differences	**249,033**	291,961
Tax losses	**14,138,130**	13,295,886
	14,387,163	13,587,847

The non-capital loss carryforwards expire between 2026 and 2039. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company and its subsidiaries can utilize the benefits.

18. COMMITMENTS AND CONTINGENCIES

a) During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company shall pay an annual royalty percentage rate of 2% of sales, payable every January 1st and July 1st, subject to a minimum annual royalty payment according to the schedule below:

Year	Amount
2012	nil
2013	$12,500
2014	$37,500
2015	$50,000
2016	$50,000

And $50,000 each year thereafter while the licence agreement remains in force. The agreements remain in force until the patents expire or are abandoned.

The licence agreement for the use of the intellectual property requires future royalty payments based on specific sales and is an executory contract. The licence agreement also does not represent an onerous contract. On this basis, upfront payments required to enter into the agreement are capitalized as a licence asset and all royalty payments under the agreement are recognized as they become due.

(b) During the year ended December 31, 2014, the Company entered into a licence agreement with the University of Alberta for the rights to an enabling pressurized gas expanded technology (PGX) that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients.

In accordance with the agreement and as amended on February 2, 2015, the Company shall pay the following royalties, payable on a semi-annual basis:

(a) a royalty of 3.5% of net sales generated from the field of pharmaceuticals;

(b) a royalty of 3.0% of net sales generated from the field of nutraceuticals;

(c) a royalty of 2.75% of net sales generated from the field of cosmetics;

(d) a royalty of 1.0% of net sales generated from the field of functional foods;

(e) a royalty of 3.0% of net sales generated from other fields.

The Company shall pay a minimum annual advance on earned royalties of $5,000 commencing March 1, 2017 and every year thereafter while the licence agreement remains in force.

The licence agreement for the use of the intellectual property requires future royalty payments based on specific sales and is an executory contract. The licence agreement also does not represent an onerous contract. On this basis, upfront payments required to enter into the agreement are capitalized as a licence asset and all royalty payments under the agreement are recognized as they become due.

(c) On August 24, 2018, the Company entered into a settlement agreement with AVAC Ltd. to settle outstanding royalty provisions with that company in the entirety. Pursuant to the terms of the settlement agreement, the royalty provisions were satisfied by a cash payment of $780,741 and by the issuance of 1,288,149 common shares of the Company, each with an issuance price of approximately $0.50 per share aggregating $650,000. The shares issued were subject to a four-month hold period and the share for debt conversion was accepted by the TSX Venture Exchange on September 20, 2018. As a result of the settlement, the Company recognized a gain on the settlement of the royalty provisions of $722,895 during the year ended December 31, 2018.

19. SEGMENTED INFORMATION

The Company has two operating segments, the active ingredient product technology industry and the cosmeceutical industry.

The active ingredient product technology industry involves the development of proprietary extraction technologies and the application of these technologies to the production and development and commercialization of active ingredients derived from oats and other renewable plant resources for healthcare and cosmetic industries. Active ingredients produced include the Company's value drivers, oat beta glucan and avenanthramides. These and similar manufactured products are sold primarily through distribution networks.

The cosmeceutical industry involves the development and commercialization of anti-aging products derived from natural active ingredients and is represented in the Company through its subsidiary, Juvente. This line of high-end value finished products is sold directly to the end-user primarily through website sales online and also through select natural stores.

Geographic Information

The following table presents revenue from contracts with customers disaggregated by geographic location to depict how the nature, amount, timing, and uncertainty of revenue and cash flows could be affected by economic factors:

Year Ended December 31,	**2019 $**	2018 $
United States	**8,014,374**	8,300,380
Germany	**2,677,508**	2,271,703
China	**2,076,356**	848,966
Other	**69,073**	142,374
Canada	**42,695**	29,243
	12,880,006	11,592,666

19. SEGMENTED INFORMATION (CONTINUED)

During the year ended December 31, 2019, the Company had export sales to one major distributor of the Company's products in the aggregate amount of $11,213,782 representing 87% of total revenue (2018 – $10,139,028 representing 87% of total revenue). This major distributor sells to dozens of customers on a worldwide basis.

All the assets of the Company, which support the revenues of the Company, are located in Canada.

Information about reportable segments is as follows:

Year ended December 31, 2019:

	Active Ingredient Product Technology Industry $	Cosmeceutical Industry $	Total $
Revenue from external sales	12,850,151	29,855	12,880,006
Gross margin	5,437,245	8,107	5,445,352
Other expenses	549,379	–	549,379
Loss before tax	(491,571)	(644,465)	(1,136,036)
Income tax benefit	–	3,408	3,408
Net loss and comprehensive loss	(491,571)	(641,057)	(1,132,628)
Depreciation and amortization	1,829,369	2,375	1,831,744
Share-based payments	212,517	–	212,517
Additions to property and equipment	3,644,286	650	3,644,936

At December 31, 2019:

	Active Ingredient Product Technology Industry $	Cosmeceutical Industry $	Total $
Property and equipment	19,756,400	7,722	19,764,122
Segment assets	27,074,486	194,672	27,269,158
Segment liabilities	4,935,580	21,404	4,956,984

Year ended December 31, 2018:

	Active Ingredient Product Technology Industry $	Cosmeceutical Industry $	Total $
Revenue from external sales	11,575,201	17,465	11,592,666
Gross margin	6,150,040	(11,842)	6,138,198
Other expenses	1,123,061	–	1,123,061
Impairment of intangible assets	–	(430,533)	(430,533)
Impairment of goodwill	–	(2,108,606)	(2,108,606)
Gain on settlement of royalty provision	722,895	–	722,895
Income (loss) before tax	261,761	(1,182,988)	(921,227)
Income tax benefit	482,996	122,694	605,690
Net income (loss) and comprehensive income (loss)	744,757	(1,060,294)	(315,537)
Depreciation and amortization	513,610	64,993	578,603
Share-based payments	336,589	–	336,589
Additions to property and equipment (net of grants)	1,076,104	8,464	1,084,568

At December 31, 2018:

	Active Ingredient Product Technology Industry $	Cosmeceutical Industry $	Total $
Property and equipment	17,938,520	9,447	17,947,967
Segment assets	25,080,998	243,625	25,324,623
Segment liabilities	2,080,323	29,299	2,109,622

20. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities measured at fair value in the balance sheet are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability

Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities approximate their carrying amount due to their short-term nature. The fair value of long-term debt is estimated to approximate its carrying value because the interest rates do not differ significantly from current interest rates for similar types of borrowing arrangements (Level 2).

The Canadian Agricultural Adaptation Program ("CAAP") loan is recorded at the amount drawn under the agreement, discounted using the prevailing market rate of interest for a similar instrument, which represents the estimated fair value of the obligation.

The fair value of the CAAP loan and the repayable research funding are not materially different from their carrying amounts as funding received has been discounted using an estimate of a market rate of interest and is being accreted back to its nominal amount (Level 2).

The following table sets out a comparison of the carrying amount and fair values of the Company's financial assets and financial liabilities:

	December 31, 2019		December 31, 2018	
	Book value	**Fair value**	Book value	Fair value
Financial assets:				
Cash and cash equivalents	**$ 1,857,195**	**$ 1,857,195**	$ 1,844,134	$ 1,844,134
Trade and other receivables	**3,659,541**	**3,659,541**	3,062,243	3,062,243
Financial liabilities:				
Accounts payable and accrued liabilities	**$1,291,204**	**$1,291,204**	$949,878	$949,878
Long-term debt	**111,865**	**111,865**	447,306	447,306
CAAP loan	**134,522**	**134,522**	188,158	188,158

The Company has exposure to credit, liquidity, and market risk as follows:

A) CREDIT RISK

TRADE AND OTHER RECEIVABLES

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 97% of trade receivables are due from one distributor at December 31, 2019 (December 31, 2018 – 90% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	December 31, 2019 $	December 31, 2018 $
Not yet due	**1,481,978**	2,492,721
Less than 30 days past due	**1,954,651**	498,579
Less than 60 days past due, more than 30 days past due	**–**	24,044
More than 60 days past due	**222,912**	–
Total	**3,659,541**	3,015,344

The Company has not assessed any trade receivables past due as impaired and the receivable more than 60 days past due was collected subsequent to the year-end.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company-wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward-looking estimates. The expected credit losses calculated for December 31, 2019 and December 31, 2018 are not significant and have not been recognized.

Other receivables represent amounts due for research program claims, government goods and services taxes, and scientific and research tax credits. The collectability risk is deemed to be low because of the good quality credit rating of the counterparties.

CASH AND CASH EQUIVALENTS

The Company has cash and cash equivalents in the amount of $1,857,195 at December 31, 2019 (December 31, 2018 – $1,844,134) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

There are no impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's trade and other receivables and cash and cash equivalents. The Company does not hold any collateral as security.

B) LIQUIDITY RISK

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The Company may be exposed to liquidity risks if it is unable to collect its trade and other receivables balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. In order to manage this liquidity risk, the Company regularly reviews its aged trade receivables listing to ensure prompt collections. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

The following are the contractual maturities of the Company's financial liabilities and obligations as at December 31, 2019:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	1,291,204	–	–	–	1,291,204
Long-term debt	115,383	–	–	–	115,383
CAAP loan	83,884	83,884	–	–	167,768
Total	1,490,471	83,884	–	–	1,574,355

20. FINANCIAL INSTRUMENTS (CONTINUED)

C) MARKET RISK

Market risk is comprised of interest rate risk, foreign currency risk, and other price risk. The Company's exposure to market risk is as follows:

1. Foreign currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company.

		FOREIGN EXCHANGE RISK (USD)	
	CARRYING AMOUNT (USD)	− 1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial assets			
Accounts receivable	2,817,028	28,170	(28,170)
Financial liabilities			
Accounts payable and accrued liabilities	330,297	(3,303)	3,303
Total increase (decrease)		24,867	(24,867)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and represents the Company's exposure at December 31, 2019.

2. Interest rate risk

The Company has minimal interest rate risk because its long-term debt agreements are all at fixed rates.

21. CAPITAL DISCLOSURES

The Company considers its capital to be its equity. The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its manufacturing operations, research and development activities, administration and marketing expenses, working capital and overall capital expenditures, including those associated with patents and trademarks. The Company makes every effort to manage its liquidity to minimize dilution to its shareholders when possible.

The Company has funded its activities through public offerings and private placements of common shares, royalty offerings, loans, convertible debentures, and grant contributions.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the year ended December 31, 2019.

22. GRANT FUNDING

a) The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the years from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to $671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended one year to September 30, 2013. All amounts claimed under the program are repayable interest free over eight years beginning in 2014. The Company received or recorded as receivable funding of $671,068 to December 31, 2013 under this program and no further funds are expected (see note 12).

b) During the year ended December 31, 2015, the Company entered into a contribution agreement with AI-Bio Solutions for a non-repayable funding contribution of $800,000 to implement the scale-up of the Company's Enabling Pressurized Gas Expanded (PGX) Technology. At December 31, 2017, the Company had expended $60,680 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the year ended December 31, 2018, the Company recognized $87,027 on eligible equipment and $52,293 on eligible expenses and received final payments totaling $200,000. The project was completed at December 31, 2018.

c) During the year ended December 31, 2016, the Company entered into a contribution agreement with the German-Canadian Centre for Innovation and Research to provide a non-repayable funding contribution of up to $247,856 for the advancement of the Company's PGX Technology. At December 31, 2017, the Company expended $30,986 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the year ended December 31, 2018, the Company received a final payment of $133,660 and recognized $36,494 as a reduction of capital expenditures and $66,180 as a reduction of research and development expenditures. The project was completed at December 31, 2018.

d) During the year ended December 31, 2019, the Company entered into a contribution agreement with the National Research Council of Canada's Industrial Research Assistance Program (NRC – IRAP) for non-repayable funding of up to a maximum of $268,000 for costs incurred on the continued development of the Company's PGX Technology for the generation of biopolymers or drug delivery systems for deployment into the functional food, cosmetic, and drug delivery markets. During the year ended December 31, 2019, the Company received or recorded as a receivable $153,936 which was recorded as a reduction of research and project development expenses. As at December 31, 2019, NRC – IRAP and the Company agreed to amend the contribution agreement to decommit $25,000 of the non-repayable funding and as a result the Company anticipates receiving an additional $89,000 during fiscal 2020.

23. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Company's liabilities arising from financing activities can be classified as follows:

	Long-term debt $	CAAP loan $	Total $
Balance January 1, 2019	447,306	188,158	635,464
Repayments	(339,321)	(83,884)	(423,205)
Foreign exchange translation	(307)	–	(307)
Amortization of transaction costs	4,187	–	4,187
Accretion	–	30,248	30,248
Balance December 31, 2019	111,865	134,522	246,387

	Long-term debt $	CAAP loan $	Total $
Balance January 1, 2018	1,291,493	234,366	1,525,859
Repayments	(865,080)	(83,884)	(948,964)
Foreign exchange translation	5,211	–	5,211
Amortization of transaction costs	15,682	–	15,682
Accretion	–	37,676	37,676
Balance December 31, 2018	447,306	188,158	635,464

24. INCOME (LOSS) PER COMMON SHARE

Year Ended December 31,	**2019**	2018
Net loss for the year for basic and diluted earnings per share calculation	**($1,132,628)**	($315,537)
Weighted average number of common shares outstanding	**77,188,505**	76,201,191
Effect of dilutive stock options and warrants	**–**	–
Diluted weighted average number of common shares	**77,188,505**	76,201,191
Loss per share – basic	**($0.01)**	($0.00)
Loss per share – diluted	**($0.01)**	($0.00)

As the Company was in a net loss position for the years ended December 31, 2019 and December 31, 2018, the impact of the conversion of convertible securities is anti-dilutive.

25. SUBSEQUENT EVENT

a) Subsequent to the year-end, the Company granted 395,000 stock options and 140,000 restricted share units to employees, officers, and directors of the Company.

The stock options have an exercise price of $0.36 per common share and expire in five years. Each grant vests in three equal instalments, the first of which vests immediately with the second and third instalments vesting on the first and second anniversaries of the date of grant.

The restricted share units vested in one instalment on January 31, 2020 and were converted into 140,000 common shares of the Company.

The second instalment of restricted share units, that were granted during the year ended December 31, 2019, also vested in January 2020, and these restricted share units were converted into 132,500 common shares of the Company.

b) Subsequent to the year-end, the World Health Organization declared the rapidly spreading coronavirus disease (COVID-19) outbreak a pandemic. This pandemic has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in an economic downturn. The Company is continually monitoring the potential impact of this pandemic on its operations and, to the date of the authorization of these consolidated financial statements, has not been significantly impacted. However, Covid-19 may affect our operations, our suppliers, and our customers in the future. While we would expect this to be temporary, there is uncertainty around the duration of the pandemic and its broader impact. The extent to which the pandemic will impact the Company's results will depend on further developments which are highly uncertain and cannot be predicted with great certainty.

Investor Information – April 14, 2020

DIRECTORS
Glenn Rourke, Chair
John Zupancic, Chair of Audit Committee
Gilles Gagnon, President & CEO
Dr. Ulrich Kosciessa
Dr. William W. Li
Donald Oborowsky

OFFICERS
Gilles Gagnon, M.Sc., MBA,
President & CEO

Stacy Prefontaine, CPA, CA
Chief Financial Officer & Corporate Secretary

STOCK INFORMATION
TSXV: CZO
OTCQX: CRPOF

HEAD OFFICE
7824 – 51 Avenue NW
Edmonton, Alberta
Canada T6E 6W2
Telephone: 1 780.421.4555
Fax: 1 780.421.1320
Website: www.ceapro.com
Email: info@ceapro.com

INVESTOR RELATIONS
JTC, Investor Relations + Integrated Communications
48 Sky Manor Road, Suite G4
Pittstown, New Jersey
USA 08867
Contact: Jenene Thomas
Telephone (US): 1 833.475.8247
Email: czo@jtcir.com

REGISTERED OFFICE
Suite 2900, Manulife Place
10180 – 101 Street NW
Edmonton, AB
Canada T5J 3V5

AUDITORS
Grant Thornton LLP
1701 Scotia Place 2
10060 Jasper Avenue NW
Edmonton, Alberta
Canada T5J 3R8

CORPORATE COUNSEL
Bryan & Company LLP
Suite 2900, Manulife Place
10180 – 101 Street NW
Edmonton, Alberta
Canada T5J 3V5

SECURITIES COUNSEL
Bryan & Company LLP
Suite 2900, Manulife Place
10180 – 101 Street NW
Edmonton, Alberta
Canada T5J 3V5

CHARTERED BANK
TD Canada Trust
148 City Centre East
10205 – 101 Street NW
Edmonton, Alberta
Canada T5J 3V5

TRANSFER AGENT & REGISTRAR
Computershare
600, 530 – 8th Avenue SW
Calgary, Alberta
Canada T2P 3S8

CHANGE OF ADDRESS
Registered Shareholders should notify the Company's Transfer Agent and Registrar at the address set out above.

Beneficial Owners should contact their respective brokerage firm to give notice of change of address.

FINANCIAL CALENDAR
The Company's year-end is December 31. Quarterly reports are available in May, August, and November.

ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS
The annual general and special meeting of shareholders will be a virtual meeting held on:

June 19, 2020 at 9:00 am MDT

For more information, please refer to the Company's Management Information Circular filed on SEDAR at www.sedar.com.

EQUAL OPPORTUNITY EMPLOYER
Ceapro Inc. is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age, or disability.

Printed in Canada

Ceapro Inc.
7824 – 51 Avenue NW
Edmonton, Alberta
Canada T6E 6W2
Telephone: 1 780.421.4555
Fax: 1 780.421.1320
www.ceapro.com