TSXV: CZO
OTCQX: CRPOF

CEAPRO
Nature Enhancing Life®

Annual Report 2020

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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

Year 2020 will be remembered forever. We cannot be prouder of our resilient employees who worked tirelessly to deliver one of the best ever performances in Company history during such a stressful year marked by the ongoing COVID-19 pandemic.

While ensuring the health and safety of our employees first, we secured business continuity by putting more emphasis on production operations to serve our customers in the cosmetic sector. This approach which resulted in significant increase in sales, net profits and cash in hand also allowed us to maintain investments in Research and Development as per our strategy to expand Ceapro's business model from a contract manufacturer/commodity company to a high value life science/biopharmaceutical company offering innovative products and delivery systems to the healthcare sector.

In addition to excellent financial and operational results, main highlights of the year include the development of beta glucan from yeast and its potential as an inhalable therapeutic for COVID-19 patients as well as the development of new chemical complexes through the use of the PGX Technology. We are thrilled with the following 2020 achievements.

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

  1. **Oat Beta Glucan:**
     - Resumed enrollment of patients for our clinical trial with beta glucan as a cholesterol reducing natural pharmaceutical product. 264 patients are needed to complete the study and two thirds of patients have been screened and randomized at this time.
     - Received approval from Health Canada for an amendment to the protocol to allow evaluation of subjects with confirmed pathophysiological conditions of hyperlipidemia who voluntarily 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 accelerated patient enrollment and should expand the target addressable patient population.

  2. **Avenanthramides:**
     - Announced publication of positive results from a study evaluating avenanthramides in exercise-induced inflammation in the international, peer-reviewed **Journal of the International Society of Sports Nutrition.**
     - Continued to monitor stability studies for liquid avenanthramides produced at a new manufacturing site as well as for the pharmaceutical-grade dry powder formulation of avenanthramides to be used in a human Phase 1 bioavailability and safety study.
     - Positive results support anti-inflammatory claims for avenanthramides as a nutraceutical product and pave the way for a Phase 1 clinical trial as a potential pharmaceutical product.

3. **New Products:**

Cannabis:

- Received approval from Health Canada Controlled Substances and Cannabis Branch for a five year research license with medical cannabis for the formulation of unique solid cannabinoid delivery systems using PGX technology.

Yeast Beta Glucan (YBG):

- Developed an optimal formulation of YBG coming from various sources.
- Confirmed the capability of PGX Technology to optimize and standardize the size and morphology of YBG (PGX-YBG) suitable for lung inhalation.
- Achieved the first milestones in the successful development of a PGX-processed yeast beta glucan product as a potential inhalable therapeutic for COVID-19 and other fibrotic endpoint diseases of the lung.
- Conducted an in-vitro study with human cell lines demonstrating that PGX-YBG obtained from different sources exhibited significant stimulatory effects on human immune response through activation of beta glucan specific Dectin 1 receptors.
- Ongoing PGX-YBG project with McMaster University conducted in parallel for naïve and preclinical animal models. To-date, no safety issues have been encountered. The preclinical phase has been extended to identify the maximum tolerated dose.
- Conducted additional in vitro PGX-YBG dose response studies to correlate with the upcoming McMaster animal study results. YBG induces immunomodulation without affecting inflammation pathways. This product is poised to become a key strategic asset for the Company.

4. **New Chemical Complexes:**

- Developed new PGX-dried chemical complexes like sodium alginate and gum arabic impregnated with Co-enzyme Q10. Positive results published in peer reviewed Journals demonstrate the versatility of the PGX technology and the potential to develop significant bioactives delivery systems. Key learnings from these studies pave the way for the scale-up of the technology at the commercial level.
- Subsequent to year-end, we announced the successful completion of a long-term research program conducted with the University of Alberta. This screening program allows Ceapro to retain the most promising products and expand the PGX based products pipeline.

5. **Technology:**
    - Performed technical upgrades of the PGX pilot plant in Edmonton to allow production of yeast beta glucan for a potential clinical trial with COVID-19 patients.
    - Completed a feasibility study for the commercial scale up of the PGX Technology. Several manufacturers and existing supercritical plants were contacted in 2020 for the choice of equipment and location. Given excellent results obtained with the new product yeast beta glucan, it became clear that the location of the first large scale PGX unit should be close to the best source of raw material which was found in Germany where we also acquired equipment suitable for the assembling of such unit. Production at the retained site will be mostly for the commercialization of yeast beta glucan as an immune booster and for alginate as a carrier for other bioactives.
    - Pursued research collaboration projects with the University of Alberta and McMaster University for the impregnation of various bioactives using PGX-processed biopolymers as potential delivery systems for multiple applications in healthcare.
    - Initiated installment in Edmonton of a commercial scale unit for impregnation of bioactives with PGX-processed biopolymers.

- **Bioprocessing Operations:** while completing the integration of production operations under one roof in Edmonton, our dedicated production team successfully responded to the growing market demand for the base business by producing over 250 metric tons of active ingredients in 2020, a 25% increase over the previous year.

  We are pleased with the renewal of the 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.

- **Corporate:**
    - Announced expansion of a grant from National Research Council of Canada for the optimization and mass production of yeast beta glucan as a potential inhalable therapeutic for COVID-19 and other fibrotic end-point disease of the lung.
    - Fully repaid loan with Agriculture Financial Services Corporation.
    - Pursued out-licensing discussions for PGX-processed new chemical complexes.
    - Secured DTC Eligibility for publicly traded shares under Ticker OTCQZ: CRPOF and increased Company exposure to additional markets with emphasis in USA.

- **Financial:** fiscal 2020 showed a 17% growth in sales driven by an impressive 33% increase in sales of Avenanthramides mostly in the USA. 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 2020 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 expansion to a new business model from a contract manufacturer to a biopharmaceutical company involved in nutraceuticals and pharmaceuticals.

We will also remain very active in business development activities for outlicensing 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 20, 2021

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, the site was certified according to international quality systems and a Site Licence was renewed 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.

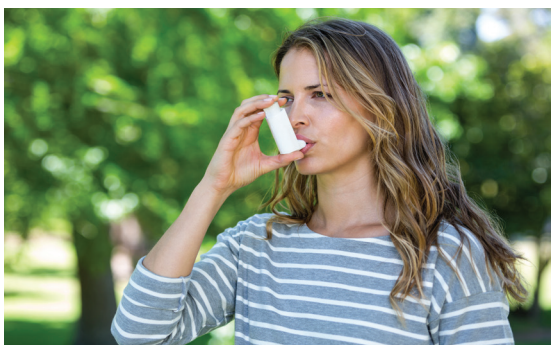
Using an innovative scale-up chromatography technology, Ceapro's researchers proved that it was possible to scale up the technology and demonstrated that the theoretical recovery of AVs and binding capacity extrapolated from laboratory trials is achievable on a pilot scale. Ceapro also generated vital 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 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 innovative combination product, with the potential for clinical benefits, paved the way for the successful processing and development of other biopolymers like starch, chitosan, pectin, gum arabics and alginates that could also be impregnated with other bioactives with the potential to act as delivery systems for a wide range of applications under various forms of administration (topical, oral/sublingual, inhalation).



Many of these developments came from established collaborative research programs with the University of Alberta and McMaster University and resulted in several publications in prestigious peer-reviewed Journals.

A long-term research program with the University of Alberta was successfully completed and contributed to the expansion of Ceapro's PGX based products pipeline with compounds like alginate and proteins.

An ongoing research project with McMaster University includes the development of yeast beta glucan as a novel enhanced immune booster and bioactive delivery system. Exciting results have been obtained from early phases of the project where the ultimate goal is to develop yeast beta glucan as an inhalable immunomodulating therapeutic for COVID-19 patients and other fibrotic lung diseases.

The PGX Technology has been licensed from the University of Alberta for all industrial applications. The Technology is patented in the U.S., Canada, Europe, and India. Successful developments of PGX custom-made process equipment at pilot scale level coupled with successful developments of PGX products with several potential applications either as stand-alone or impregnated biopolymers with bioactives (delivery systems) have paved the way for the scale-up of the PGX Technology at commercial level. While oat beta glucan, alginate and yeast beta glucan offer the best potential for commercialization, it looks like yeast beta glucan is the most promising product in terms of potential markets and return on investment. Since this product is poised to be a masterpiece of Ceapro' strategy and given experiments conducted with various sources of yeast beta glucan, it becomes necessary to install a PGX facility close to the best source of raw material. Results from these studies show that the best source is located in Germany.

In 2020, Ceapro bought equipment from a larger scale supercritical plant in Germany and engaged a manufacturer for the modification and conversion of the retained equipment to comply with PGX unique requirements. The new PGX installation will be designed for an initial capacity of 20 metric tons per year mostly for the production of yeast beta glucan to be sold as a nutraceutical (immunomodulating) product.

The design and manufacturing of modular PGX equipment should take between six to nine months while the installation of the PGX plant, utilities, facilities upgrades and commissioning of the production facility should take an additional nine to twelve months. The final decision on location is pending upon receipt of invitational packages from different cities.

While this project is taking shape in Europe, considerable amount of work has been completed for the installation of a commercial scale impregnation unit at the Edmonton based facility for the production of new chemical complexes. It is anticipated that commissioning of this impregnation system will be completed during the second half of 2021. Commercial scale up level is critical for out-licensing applications produced using the PGX Technology.

There is 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

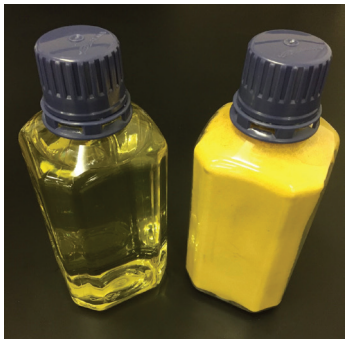
In addition to cosmetics applications, it has been suggested that when taken orally, Ceapro's flagship product, avenanthramides, could be beneficial in serious conditions like inflammatory bowel syndrome, atherosclerosis, colon cancer, and joint inflammation. These findings led to the idea that avenanthramides 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 which were published in 2020 in the peer-reviewed Journal of the International Society of Sports Nutrition clearly 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. A Phase 1 protocol is being prepared for submission to Health Canada. 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 physicochemical 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. Potential partners are also interested in new chemical complexes developed by Ceapro such as alginate/CoQ10 and yeast beta glucan/CoQ10. Additional bioavailability studies are required to demonstrate that alginate and/or yeast beta glucan also act as a carrier to deliver CoQ10 to the targeted tissues. Such studies will be initiated upon the reopening of laboratories at the University of Alberta.

- **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 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 standalone therapy has facilitated patient enrollment and should expand the target addressable patient population. Given that two thirds of the expected number of patients have been enrolled and randomized, Ceapro expects this study to be completed by year end 2021. Supported by 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.

From Field to Formulation

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 through online 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. A second generation of Juvente^{DC} products with higher concentration of beta glucan was launched in Q4, 2020 and is going to be assessed in targeted European markets. Based on previous observations and on the successful development of new chemical complexes 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 cosmeceutical products. Some of them like anti-inflammatory products and cannabinoids for which Ceapro was granted a five-year research license by Health Canada in 2020, 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, 2020 and 2019, the financial position as at December 31, 2020, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 20, 2021. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2020, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2019, 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, 2019. All comparative percentages are between the years ended December 31, 2020 and 2019 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 20, 2021 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 90% of trade receivables are due from one distributor at December 31, 2020 (December 31, 2019 – 97% 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, 2020 $	December 31, 2019 $
Not yet due	**407,993**	1,481,978
Less than 30 days past due	**1,419,731**	1,954,651
Less than 60 days past due, more than 30 days past due	**191,999**	–
More than 60 days past due	**–**	222,912
Total	**2,019,723**	3,659,541

The Company has not assessed any trade receivables past due as impaired.

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, 2020 and December 31, 2019 are not significant and have not been recognized.

Other receivables represent amounts due for research program claims, government funding 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 $5,369,029 at December 31, 2020 (December 31, 2019 – $1,857,195) 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, 2020:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	1,067,622	–	–	–	1,067,622
CAAP loan	83,884	–	–	–	83,884
Total	**1,151,506**	**–**	**–**	**–**	**1,151,506**

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. The amounts have been translated based on the exchange rate at December 31, 2020.

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (CDN)	
		– 1%	+1%
		EARNINGS & EQUITY	EARNINGS & EQUITY
Financial assets			
Accounts receivable	1,583,613	20,162	(20,162)
Financial liabilities			
Accounts payable and accrued liabilities	170,811	(2,175)	2,175
Total increase (decrease)		17,988	(17,988)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2020.

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, inventory valuation, amortization of property and equipment, 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) 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.

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 can cause the Company 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) 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.

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 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.

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 employees, our operations, our suppliers, and our customers. While we would expect this to be temporary, there is uncertainty around the duration of the pandemic, especially considering the variants of the virus that have emerged, 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.

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2020, 2019, and 2018

CONSOLIDATED INCOME STATEMENT

$000s EXCEPT PER SHARE DATA	**2020**	**%**	2019	%	2018	%
Total revenues	**15,121**	**100%**	12,880	100%	11,593	100%
Cost of goods sold	**7,499**	**50%**	7,435	58%	5,455	47%
Gross margin	**7,622**	**50%**	5,445	42%	6,138	53%
Research and product development	**1,882**	**12%**	2,394	19%	2,666	23%
General and administration	**3,283**	**22%**	2,952	23%	3,000	26%
Sales and marketing	**111**	**1%**	425	3%	225	2%
Finance costs	**231**	**2%**	261	2%	119	1%
Income (loss) from operations	**2,115**	**14%**	(587)	−5%	128	1%
Impairment on intangible assets	**–**	**0%**	–	0%	(430)	−4%
Impairment on goodwill	**–**	**0%**	–	0%	(219)	−2%
Gain on settlement of royalty provisions	**–**	**0%**	–	0%	723	6%
Other income (expenses)	**(259)**	**−2%**	(549)	−4%	(1,123)	−10%
Income (loss) before tax	**1,856**	**12%**	(1,136)	−9%	(921)	−8%
Income taxes	**–**	**0%**	3	0%	605	5%
Net income (loss)	**1,856**	**12%**	(1,133)	−9%	(316)	−3%
Basic net income (loss) per common share	**0.024**		(0.015)		(0.004)	
Diluted net income (loss) per common share	**0.024**		(0.015)		(0.004)	

The following sections discuss the consolidated results from operations.

REVENUE

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2020**	2019	CHANGE	**2020**	2019	CHANGE
Total revenues	**15,121**	12,880	17%	**2,706**	3,721	– 27%

Revenue of $15,121,000 for the year ended December 31, 2020 was 17% higher than the comparative year. The increase in sales revenue was primarily driven by a 33% increase in the sale of avenanthramides which was partially offset by a 16% decrease in the sale of beta glucan year over year. 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 $280,000.

Total sales revenue for the fourth quarter ended December 31, 2020 amounted to $2,706,000 compared to $3,721,000 for the fourth quarter ended December 31, 2019, which represented a decrease of 27%. The sale of avenanthramides and beta glucan were both lower in the fourth quarter. Foreign exchange did not have a large impact. It negatively impacted revenue by approximately $32,000, due to a lower U.S. dollar relative to the Canadian dollar compared to the comparative quarter.

EXPENSES

COST OF GOODS SOLD AND GROSS MARGIN

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2020**	2019	CHANGE	**2020**	2019	CHANGE
Sales	**15,121**	12,880	17%	**2,706**	3,721	– 27%
Cost of goods sold	**7,499**	7,435	1%	**1,704**	2,107	– 19%
Gross margin	**7,622**	5,445	40%	**1,002**	1,614	– 38%
Gross margin %	**50%**	42%		**37%**	43%	

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, 2020, revenue increased by 17%, but cost of goods sold only increased by 1%. The increase in cost of goods sold was significantly lower than the increase in revenue which has contributed to an overall increase in the gross margin percentage from 42% to 50%.

Cost of goods sold throughout the year was impacted significantly from the quality of the raw materials used that resulted in a higher output of finished goods; however, this positive impact was partially offset in the fourth quarter of 2020 as the final stages of the transition from the Leduc site to the Edmonton site were completed. Some key pieces of equipment used in the Leduc site were incorporated into the Edmonton process, and some new equipment purchases were installed, which will benefit the process in the long run and improve efficiencies but in the short term caused some disruption in the fourth quarter and effectively lowered production output. On an annual basis, overhead, including

fixed and variable costs and amortization, was consistent with the comparative year while production volumes increased by 15%, so the cost of the goods sold in the year was lower on a per kilogram basis.

During the fourth quarter of 2020, revenue decreased by 27%, but cost of goods sold only decreased by 19%. The lower decrease in cost of goods sold compared to the decrease in revenue contributed to an overall decrease in the gross margin percentage from 43% to 37%.

Cost of goods sold in the fourth quarter was impacted from the final stages of the transition of the manufacturing sites as previously noted and while overhead, including fixed and variable costs and amortization was slightly lower than the comparative quarter, largely due to not also running the Leduc site, production volumes decreased by 29%, so the cost of goods sold in the quarter was higher on a per kilogram basis.

Gross margin for the quarter was also negatively impacted from a lower sales margin product mix compared with the fourth quarter in the prior year.

RESEARCH AND PRODUCT DEVELOPMENT

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2020**	2019	CHANGE	**2020**	2019	CHANGE
Salaries and benefits	**797**	935		**212**	213	
Regulatory and patents	**160**	303		**22**	23	
Clinical studies	**643**	890		**264**	235	
Other	**282**	266		**3**	3	
Total research and product development expenditures	**1,882**	2,394	−21%	**501**	474	6%

For the year ended December 31, 2020, research and development expenses have decreased by $512,000 or 21%. The decrease is primarily due to lower expenditures 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 due to lower regulatory and patent expense.

During the quarter ended December 31, 2020, research and development expenses increased by $27,000 or 6%. The increase is primarily due to higher expenditures related to the pilot clinical study for the development of beta glucan as a cholesterol reducer and by higher regulatory and patent expense.

During the year ended December 31, 2020, activities relating to the beta glucan study have been focused on patient enrollment and expenditures have been paid to the Montreal Heart Institute. There were lower expenditures in the first six months of 2020 which was a reflection of the slower than expected enrollment of patients for the study. This was partially due to an amendment to the protocol that was only approved by Health Canada in the first quarter of 2020 and which also needed approval at all centers conducting the study. The amendment was to allow the evaluation of subjects to be treated only with beta-glucan as compared to the original study protocol which allowed patients only to be evaluated with beta-glucan as an add-on therapy to statins. And it was also partially due to enrollment delays throughout the first six months of 2020 due to the COVID-19 pandemic. However, during the last six months of 2020, expenditures have increased and enrollment has been ramping up.

Research and development salaries expense is lower in the current year compared to the prior year primarily due to the receipt of $367,000 in grant funding in the current year compared to $154,000 funding in the prior year. For the current quarter, the Company received $95,000 to offset salaries expense compared to $74,000 in the comparative quarter.

These decreases were partially offset by the addition of a new team member to the PGX group at the beginning of the year and another new team member in September 2020.

Regulatory and patents expense will vary from period to period based on the timing of filings and maintenance payments. The overall decrease in the current year is largely due to significant translation payments relating to new European patents on the Company's Pressurized Gas eXpanded (PGX) Technology in the comparative year which were not recurring payments.

Expenditures on other projects during the current year are slightly higher primarily due to a final payment on a research program to study the bio-activity of new formulations of the Company's value driver active ingredients which was not incurred in the comparative year offset by the completion of other studies in the comparative year. Expenditures on other projects were comparable in the current quarter. 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, research on product development, and new applications for its value driving products, but the start of some of these studies are facing delays due to COVID-19.

GENERAL AND ADMINISTRATION

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2020**	2019	CHANGE	**2020**	2019	CHANGE
Salaries and benefits	**807**	734		**172**	163	
Consulting	**480**	480		**120**	120	
Licensing activities	**240**	–		**86**	–	
Board of Directors compensation	**202**	219		**44**	48	
Insurance	**152**	137		**41**	36	
Accounting and audit fees	**111**	103		**16**	18	
Rent	**60**	62		**16**	15	
Public company costs	**572**	462		**137**	83	
Travel	**46**	94		**7**	18	
Depreciation and amortization	**352**	358		**87**	90	
Legal	**19**	39		**2**	3	
Other	**242**	264		**60**	80	
Total general and administration expenses	**3,283**	2,952	11%	**788**	674	17%

General and administration expense for the year ended December 31, 2020 increased by $331,000 or 11% over the prior year. The increase is primarily due to an increase in expense relating to the engagement of an international consulting company to support Ceapro's licensing activities, an increase in salaries and benefits over the comparative quarter primarily due to existing employees increasing their time spent on general and administrative functions, and due to additional investment into investor communications and advisory services. These noted increases in public company costs during the year were offset partially because the Company incurred legal and other costs to uplist to the OTCQX in the prior year which are not repeated in the current year. The noted increases were also partially offset by lower travel expenses due to company-wide travel restrictions put into place as a result of the COVID-19 pandemic.

General and administration expense for the quarter ended December 31, 2020 increased by $114,000 or 17% from the comparative quarter. The factors that impacted the year also impacted the fourth quarter. However, the increase in expense related to salaries and benefits was not as significant in the fourth quarter as the Company's subsidiary was eligible to receive federal wage subsidies totaling $26,292 that offset payroll expenses in the subsidiary.

SALES AND MARKETING

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2020**	2019	CHANGE	**2020**	2019	CHANGE
Sales and marketing salaries	**1**	180		**–**	58	
Courses, conferences & advertising	**109**	243		**20**	77	
Other	**1**	2		**1**	–	
Total sales and marketing	**111**	425	−74%	**21**	135	−84%

Sales and marketing expense for the year ended December 31, 2020 decreased by $314,000 or 74% from the comparative year.

For the quarter ended December 31, 2020, sales and marketing expense decreased by $114,000 or 84% from the comparative quarter.

The primary reason for the decrease is due to the Company's reorganization of business development, marketing, and account management functions which resulted in the elimination of the director of marketing and sales position at the beginning of the year.

Courses, conferences, and advertising expense is primarily lower in the year and quarter ended December 31, 2020, as the Company temporarily halted expenditures on some non-essential marketing and advertising activities. The expense is also partially lower as the Company travelled to a couple of conferences and tradeshows in the prior year and did not in the current year. Due to COVID 19 travel and safety restrictions, all in-person conferences and trade shows have been deferred until it is determined to be safe to attend.

FINANCE COSTS

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2020**	2019	CHANGE	**2020**	2019	CHANGE
Interest on long-term debt	**1**	6		**(1)**	(1)	
Interest on lease liabilities	**152**	166		**37**	41	
Transaction costs	**1**	4		**–**	–	
Royalties	**55**	55		**–**	–	
Accretion of CAAP loan	**22**	30		**6**	8	
	231	261	−11%	**42**	48	−13%

Finance costs decreased by 11% or $30,000 in the year ended December 31, 2020 from $261,000 in 2019 to $231,000.

The decrease is partially attributable to lower interest on long-debt debt and lower transactions costs as the principal balance of the long-term debt was fully repaid in July 2020. The decrease is also partially attributable to lower accretion on the CAAP loan and lower interest on the lease liabilities as the principal portions of these liabilities are also lower from ongoing repayment.

Finance costs for the quarter ended December 31, 2020 decreased by 13%, from $48,000 in 2019 to $42,000, due to the same factors that impacted the year.

OTHER (INCOME) EXPENSES

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2020**	2019	CHANGE	**2020**	2019	CHANGE
Foreign exchange (gain) loss	**165**	196		**192**	79	
Plant relocation costs	**90**	191		**(4)**	40	
Other (income) expense	**4**	(15)		**–**	1	
Quality management system	**–**	177		**–**	–	
	259	549	– 53%	**188**	120	57%

During the year ended December 31, 2020, other expenses decreased by $290,000 or 53% from $549,000 to $259,000. This decrease was partially due to a lower foreign exchange loss during the current year compared to the prior year, due to lower expenditures relating to plant relocation costs and due to no expenditures relating to a quality management system in the current year.

During the fourth quarter ended December 31, 2020, other expenses increased by $68,000 from $120,000 in 2019 to $188,000. The increase was primarily due to a significant increase in the foreign exchange loss incurred in the quarter offset partially from a decrease in expenditures relating to plant relocation costs.

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. During the first quarter of 2020, the Canadian dollar weakened significantly which resulted in a foreign exchange gain in that quarter, but during the rest of the year, the US dollar has weakened which has resulted in a reversal of the foreign exchange gain experienced in the first quarter, and by December 31, 2020, the Company experienced an overall foreign exchange loss for the year that was slightly lower than the loss incurred in the prior year. The US dollar weakened significantly in the fourth quarter resulting in a large foreign exchange loss compared to the fourth quarter of 2019.

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. As a result, there were no further expenditures during 2020.

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, any remaining validation and commissioning costs are reflected in this balance but have been declining the further along from substantial completion the Company gets. Also included in this account are costs relating to additional bays of the facility that have not commenced construction. During the third quarter of 2020, the Leduc manufacturing facility was shut down and the Company has moved all contents over to Edmonton. The slight credit balance in the fourth quarter was the result of the reversal of some expense accruals that were in excess of the expenses in the quarter.

DEPRECIATION AND AMORTIZATION EXPENSE

In the year ended December 31, 2020, the total depreciation and amortization expense was $1,841,000 which was consistent with the expense of $1,832,000 in the comparative year in 2019. The expense was allocated as follows: $352,000 to general and administration expense (2019 – $356,000), $126,000 to inventory (2019 – $9,000), and $1,363,000 (2019 – $1,467,000) to cost of goods sold.

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 periods primarily relate to general and administrative costs and marketing costs. General and administrative expenses in Juvente between the current and comparative year were approximately $57,000 lower, and between the current and comparative quarter were approximately $41,000 lower and a large portion of these differences was due to Juvente being eligible to receive federal wage subsidies totaling $26,292 that offset payroll expenses in the fourth quarter of 2020. Sales and marketing expense is approximately $118,000 lower than the comparative fourth quarter and is approximately $268,000 lower in the current year compared with the prior year. These decreases are primarily related to marketing and sales salaries and lower advertising expenditures which are more fully discussed in the sales and marketing section.

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 bioactives.

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.

	2020				2019			
$000s EXCEPT PER SHARE DATA	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total revenues	**2,706**	**3,476**	**4,666**	**4,273**	3,721	2,908	3,054	3,197
Net income (loss)	**(539)**	**192**	**1,077**	**1,126**	166	(104)	(559)	(637)
Basic net income (loss) per common share	**(0.007)**	**0.002**	**0.014**	**0.015**	0.002	(0.001)	(0.007)	(0.008)
Diluted net income (loss) per common share	**(0.007)**	**0.002**	**0.014**	**0.014**	0.002	(0.001)	(0.007)	(0.008)

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 income (loss) in the first quarters of 2020 and 2019 includes non-cash share-based payment accounting charges of $94,000 (2019 – $98,000) primarily relating to the granting of stock options and restricted share units in January 2020 and January 2019. These accounting charges are higher than in any of the comparable quarters presented, as convertible securities granted during these periods were not as significant.

SIGNIFICANT NEW ACCOUNTING STANDARDS

There were no new standards that became effective for periods beginning on or after January 1, 2020 that have a material impact on the Company's audited consolidated financial statements for the quarter or year ending December 31, 2020.

New standards and amendments to existing standards have been published by the International Accounting Standards Board that are not yet effective. These standards are not expected to be relevant or material to the Company.

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EMPLOYED

$000s	**December 31, 2020**	December 31, 2019
Non-current assets	**20,174**	20,858
Current assets	**9,050**	6,411
Current liabilities	**(1,391)**	(1,741)
Total assets less current liabilities	**27,833**	25,528
Non-current liabilities	**3,523**	3,216
Shareholders' equity	**24,310**	22,312
Total capital employed	**27,833**	25,528

Non-current assets decreased by $684,000 primarily due to a depreciation provision of $1,838,000, an amortization provision on licences of $3,000 and the utilization of deposits of $4,000, offset by an increase in the recognition of deferred tax assets of $496,000 and the net acquisition of $665,000 of property and equipment including an IFRS 16 lease adjustment.

Current assets increased by $2,639,000 primarily due to an increase in cash from operations of $3,512,000, an increase in inventories of $541,000, and an increase in prepaid expenses and deposits of $170,000 primarily from significant deposits on the purchase of oats and property and equipment, offset by a net decrease in trade and other receivables in the amount of $1,584,000.

Current liabilities totaling $1,391,000 decreased by the net amount of $350,000 primarily due to a decrease in accounts payable and accrued liabilities of $224,000, a decrease in the current portion of long-term debt of $112,000 as the loan was fully repaid, a decrease in the current portion of lease liabilities of $14,000, and a decrease in the current portion of CAAP loan of $1,000.

Non-current liabilities totaling $3,523,000 increased by the net amount of $307,000 primarily due to the recognition of deferred tax liabilities of $496,000 offset by the repayment of lease liabilities and reallocation of current portion of the lease liabilities net of an adjustment from the modification of a lease of $127,000, and due to repayment of the CAAP loan net of accretion of $62,000.

Equity of $24,310,000 at December 31, 2020 increased by $1,998,000 from equity of $22,312,000 at December 31, 2019, primarily due to the recognition of net income of $1,856,000 for year ended December 31, 2020, the recognition of share-based payment compensation of $137,000, and due to the issuance of shares from the exercise of stock options of $5,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the years ended December 31, 2020 and 2019.

	Year Ended December 31,		Quarter Ended December 31,	
$000s	**2020**	2019	**2020**	2019
Sources of funds:				
Funds generated from operations adjusted for non-cash items	**4,010**	1,113	**–**	699
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	**135**	–	**120**	–
Deposits relating to investing activities	**–**	188	**–**	–
Share issuance	**5**	17	**2**	–
Changes in non-cash working capital items relating to operating activities	**596**	–	**–**	–
	4,746	1,318	**122**	699
Uses of funds:				
Funds used in operations adjusted for non-cash items	**–**	–	**(24)**	–
Purchase of property and equipment	**(528)**	(332)	**(306)**	7
Purchase of leasehold improvements	**(13)**	(6)	**(13)**	(6)
Deposits relating to investing activities	**(77)**	–	**(77)**	–
Changes in non-cash working capital items relating to operating activities	**–**	(60)	**(263)**	(1,100)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	**–**	(47)	**–**	(102)
Interest paid	**(154)**	(171)	**(37)**	(39)
Repayment of long-term debt and CAAP loan	**(197)**	(423)	**(84)**	(134)
Repayment of lease liabilities	**(265)**	(266)	**(67)**	(64)
	(1,234)	(1,305)	**(871)**	(1,438)
Net change in cash flows	**3,512**	13	**(749)**	(739)

Net change in cash flow was an increase of $3,512,000 during the year ended December 31, 2020 in comparison with an increase of $13,000 for the comparative year. A significant reason for the difference relates to cash generated from operations of $4,606,000 (after adjustment for non-cash items and working capital items) in the current year compared to $1,053,000 of cash generated from operations in the comparative year. The other significant reason for the improvement in cash flow is that long-term debt and CAAP loan repayment in the current year was only $197,000 compared to $423,000 in the comparative year as the Company fully repaid certain loans in the prior year and then completed repayment on the last long-term debt loan in July 2020. These increases were offset slightly by an increase in the purchase of property and equipment in the current year over the prior year, primarily relating to equipment purchases and improvements at the Edmonton production site during the fourth quarter of 2020.

The Company has a positive working capital balance (defined as current assets less current liabilities) of $7,659,357 at December 31, 2020. 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 expand 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 20, 2021 were 77,672,843 (April 14, 2020 – 77,608,341). In addition, 2,991,999 stock options as at April 20, 2021 (April 14, 2020 – 3,189,501 stock options) 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, 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. The agreement has been amended twice in 2020. During the first quarter of 2020, NRC – IRAP and the Company agreed to amend the contribution agreement to increase funding by $107,000 for the period April 1, 2020 – March 31, 2022 and in October 2020, the contribution agreement was amended again to increase funding by $240,000 for the period April 1, 2020 – March 31, 2022. During the year ended December 31, 2020, the Company received or recorded as a receivable $367,542 which has been recorded as a reduction of research and development expenses. The Company anticipates receiving an additional $68,522 during fiscal 2021.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2020, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $1,014,000 (2019 – $973,000) and share-based payments expense for key management personnel was $88,000 (2019 – $123,000).

The amount payable to directors at December 31, 2020 was $40,000 (2019 – $40,000). Consulting fees and key management salaries to officers and key management included in accounts payable and accrued liabilities at December 31, 2020 was $22,000 (2019 – $Nil).

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 PGX technology 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.

OUTLOOK

Our focus remains on the health and safety of our associates during this COVID-19 pandemic crisis, followed by business continuity. Depending on the evolution of the COVID-19 pandemic, we expect Ceapro's cosmeceuticals base business to continue to grow and provide positive cash flows to support the expansion 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 emphasize the development of formulations potentially allowing delivery of bioactives through different modes of administration (oral, topical, sub-lingual, nasal spray). The development of such delivery systems being made possible using Ceapro's proprietary PGX Technology for which we have started the design and acquired pieces of equipment suitable for assembling a commercial scale unit for the processing of alginate and beta glucan extracted from yeast, a new product which is poised to become a key strategic asset for the Company.

To date, the Company's business has not been significantly impacted by the COVID-19 pandemic. The Company is maintaining additional preventative measures to ensure the highest level of safety for Ceapro's employees. The Company will continue to work 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 20, 2021

Independent Auditor's Report

Grant Thornton LLP
1701 Scotia Place 2
10060 Jasper Avenue
Edmonton, AB
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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, 2020, and December 31, 2019 and the consolidated statements of net income (loss) and comprehensive income (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, 2020 and December 31, 2019, 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 Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

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.

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.

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 inability 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.

Grant Thornton

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 20, 2021

Grant Thornton LLP

Chartered Professional Accountants

CONSOLIDATED BALANCE SHEETS

	December 31, 2020 $	December 31, 2019 $
ASSETS		
Current Assets		
Cash and cash equivalents	**5,369,029**	1,857,195
Trade receivables	**2,019,723**	3,659,541
Other receivables	**102,224**	46,812
Inventories (note 3)	**1,210,079**	669,005
Prepaid expenses and deposits	**348,845**	178,908
	9,049,900	6,411,461
Non-Current Assets		
Investment tax credits receivable	**607,700**	607,700
Deposits	**82,124**	85,755
Licences (note 4)	**18,514**	21,477
Property and equipment (note 5)	**18,591,189**	19,764,122
Deferred tax assets (note 14 (b))	**874,304**	378,643
	20,173,831	20,857,697
TOTAL ASSETS	**29,223,731**	27,269,158
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**1,067,622**	1,291,204
Current portion of long-term debt (note 6)	**–**	111,865
Current portion of lease liabilities (note 7)	**250,658**	265,123
Current portion of CAAP loan (note 9)	**72,263**	72,942
	1,390,543	1,741,134
Non-Current Liabilities		
Long-term lease liabilities (note 7)	**2,648,917**	2,775,627
CAAP loan (note 9)	**–**	61,580
Deferred tax liabilities (note 14 (b))	**874,304**	378,643
	3,523,221	3,215,850
TOTAL LIABILITIES	**4,913,764**	4,956,984
Equity		
Share capital (note 8 (b))	**16,511,067**	16,401,677
Contributed surplus (note 8 (e))	**4,682,393**	4,650,090
Retained earnings	**3,116,507**	1,260,407
	24,309,967	22,312,174
TOTAL LIABILITIES AND EQUITY	**29,223,731**	27,269,158

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Year Ended December 31,	**2020 $**	2019 $
Revenue (note 16)	**15,121,282**	12,880,006
Cost of goods sold	**7,498,996**	7,434,654
Gross margin	**7,622,286**	5,445,352
Research and product development	**1,881,883**	2,393,607
General and administration	**3,282,754**	2,952,488
Sales and marketing	**111,044**	425,230
Finance costs (note 12)	**231,271**	260,684
Income (loss) from operations	**2,115,334**	(586,657)
Other expenses (note 11)	**(259,234)**	(549,379)
Income (loss) before tax	**1,856,100**	(1,136,036)
Income taxes		
Current tax recovery	**–**	–
Deferred tax benefit	**–**	3,408
Income tax benefit	**–**	3,408
Total comprehensive income (loss) for the year	**1,856,100**	(1,132,628)
Net income (loss) per common share (note 21):		
Basic	**0.02**	(0.01)
Diluted	**0.02**	(0.01)
Weighted average number of common shares outstanding (note 21):		
Basic	**77,594,629**	77,188,505
Diluted	**78,143,033**	77,188,505

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital $	Contributed surplus $	Retained earnings $	Total equity $
Balance December 31, 2019	16,401,677	4,650,090	1,260,407	22,312,174
Share-based payments (note 8 (c) & (d))	–	136,796	–	136,796
Share options exercised	7,978	(3,081)	–	4,897
Restricted share units vested (note 8 (d))	101,412	(101,412)	–	–
Net income for the year	–	–	1,856,100	1,856,100
Balance December 31, 2020	16,511,067	4,682,393	3,116,507	24,309,967
Balance December 31, 2018	16,320,522	4,501,444	2,393,035	23,215,001
Share-based payments (note 8 (c) & (d))	–	212,517	–	212,517
Restricted share units vested (note 8 (d))	52,938	(52,938)	–	–
Share options exercised	28,217	(10,933)	–	17,284
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

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,	2020 $	2019 $
OPERATING ACTIVITIES		
Net income (loss) for the year	**1,856,100**	(1,132,628)
Adjustments for items not involving cash		
Finance costs	**153,538**	171,249
Transaction costs	**1,108**	4,187
Depreciation and amortization	**1,841,033**	1,831,744
Foreign exchange gain on long-term debt	**–**	(307)
Accretion	**21,625**	30,248
Deferred tax benefit	**–**	(3,408)
Share-based payments	**136,796**	212,517
Net income (loss) for the year adjusted for non-cash items	**4,010,200**	1,113,602
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	**1,639,818**	(644,197)
Other receivables	**(55,412)**	87
Inventories	**(541,074)**	41,703
Prepaid expenses and deposits	**(88,839)**	154,106
Accounts payable and accrued liabilities relating to operating activities	**(358,136)**	388,064
Total changes in non-cash working capital items	**596,357**	(60,237)
Net income (loss) for the year adjusted for non-cash and working capital items	**4,606,557**	1,053,365
Interest paid	**(153,538)**	(171,249)
CASH GENERATED FROM OPERATIONS	**4,453,019**	882,116
INVESTING ACTIVITIES		
Purchase of property and equipment	**(528,707)**	(332,186)
Purchase of leasehold improvements	**(12,870)**	(6,007)
Proceeds from sale of equipment	**353**	–
Deposits relating to investment in equipment	**(77,467)**	187,790
Accounts payable and accrued liabilities relating to investing activities	**134,554**	(46,738)
CASH USED IN INVESTING ACTIVITIES	**(484,137)**	(197,141)
FINANCING ACTIVITIES		
Stock options exercised	**4,897**	17,284
Repayment of long-term debt	**(112,973)**	(339,321)
Repayment of CAAP loan	**(83,884)**	(83,884)
Repayment of lease liabilities	**(265,088)**	(265,993)
CASH USED IN FINANCING ACTIVITIES	**(457,048)**	(671,914)
Increase in cash and cash equivalents	**3,511,834**	13,061
Cash and cash equivalents at beginning of the year	**1,857,195**	1,844,134
Cash and cash equivalents at end of the year	**5,369,029**	1,857,195

See accompanying notes

Cash and cash equivalents are comprised of $5,362,191 (2019 – $1,850,357) on deposit with financial institutions and $6,838 (2019 – $6,838) held in money market mutual funds.

:: Notes to Consolidated Financial Statements December 31, 2020 and 2019

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 20, 2021.

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.

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, 2020.

Impairment of non-financial assets

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 8.

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. Each sale is considered a single performance obligation and 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, when collectability is probable, and the Company has satisfied its performance obligation.

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) 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.

G) 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.

H) 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I) 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.

J) IMPAIRMENT OF NON-FINANCIAL ASSETS

For impairment assessment purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or CGUs).

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.

K) LEASES

At inception, 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.

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.

L) 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.

M) 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.

N) 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)

O) 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.

P) 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.

Q) 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.

R) 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.

S) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T) COVID-19 PANDEMIC

On March 11, 2020, 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 continued to have a negative impact on economies and financial markets around the world. 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 negatively impacted from a financial perspective, however has experienced some limited delays and disruptions to the Company's ongoing clinical trial and research programs. The Company is taking measures to ensure the safety of our staff and customers and to mitigate any risks from COVID-19 relating to our manufacturing facility. 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, especially considering the variants of the virus that have emerged, 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.

Management will continue to monitor and assess the impact of the pandemic on its judgements, estimates, accounting policies, and amounts recognized in these consolidated financial statements. Potential impacts may include, but are not limited to, impairment of property and equipment, write-downs of inventory, and a change in the estimated credit loss on accounts receivable. For the year ended December 31, 2020, the Company has assessed the possible impacts of COVID-19 on its financial results and no changes to estimates or carrying amounts are required.

U) FUTURE ACCOUNTING PRONOUNCEMENTS

The IASB has published several new, but not yet effective, standards, amendments to existing standards, and interpretations. None of these standards, amendments to existing standards or interpretations have been early adopted by the Company and management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. No pronouncements have been disclosed as they are not expected to have a material impact on the Company's consolidated financial statements.

3. INVENTORIES

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

	December 31, 2020 $	December 31, 2019 $
Raw materials	**540,425**	483,203
Work in progress	**148,162**	37,307
Finished goods	**521,492**	148,495
	1,210,079	669,005

Inventories expensed to cost of goods sold during the year ended December 31, 2020 are $7,386,194 (December 31, 2019 – $7,233,113).

During the year ended December 31, 2020, the Company decreased the carrying value of inventory by $78,400 (2019 – $64,223) primarily due to estimated realizable values from certain finished goods being lower than cost. The write-down is included in cost of goods sold.

4. 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 15 (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 expense for the year ended December 31, 2020 (December 31, 2019 – $2,963) (see note 15 (a)).

Cost of licences	$
Balance – December 31, 2018	44,439
Additions	–
Balance – December 31, 2019	44,439
Additions	–
Balance – December 31, 2020	44,439

Accumulated amortization	
Balance – December 31, 2018	19,999
Amortization	2,963
Balance – December 31, 2019	22,962
Amortization	2,963
Balance – December 31, 2020	25,925

Net book value	
Balance – December 31, 2020	18,514
Balance – December 31, 2019	21,477

5. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Buildings $	Leasehold Improvements $	Total $
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
Additions	–	516,981	–	11,726	–	12,870	541,577
Disposals	–	–	–	(650)	–	(120,364)	(121,014)
Lease modification adjustment	–	–	–	–	123,913	–	123,913
December 31, 2020	1,518,826	11,999,108	319,219	483,565	3,430,656	8,704,977	26,456,351
Accumulated Depreciation							
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
Additions	–	798,711	16,921	21,331	337,603	663,504	1,838,070
Disposals	–	–	–	(297)	–	(120,364)	(120,661)
December 31, 2020	–	4,867,321	251,534	428,738	676,093	1,641,476	7,865,162
Carrying Amount							
December 31, 2020	1,518,826	7,131,787	67,685	54,827	2,754,563	7,063,501	18,591,189
December 31, 2019	1,518,826	7,413,517	84,606	64,785	2,968,253	7,714,135	19,764,122

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Year Ended December 31, 2020	1,362,689	125,929	349,452	1,838,070
Year Ended December 31, 2019	1,466,759	8,768	353,254	1,828,781

Included in the net carrying amount of property and equipment at December 31, 2020, are right-of-use assets relating to buildings, in the amount of $2,754,563 (December 31, 2019 – $2,968,253).

Included in the carrying amount of leasehold improvements is the amount of $1,040,234 (December 31, 2019 – $1,027,364) and $1,518,826 of equipment not available for use (December 31, 2019 – $1,518,826) 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, 2020, no amortization has commenced on these balances as construction and installation activities have not commenced.

The Company has entered into an agreement to purchase specialized equipment for 150,000 Euro, that will be used to develop the PGX technology to commercial scale level. Included in prepaid expenses and deposits at December 31, 2020, is an advance payment of $77,467 CAD. The purchase is expected to be completed in 2021 and based on the exchange rate at December 31, 2020, the remaining estimated payments will be approximately $156,080 CAD.

6. LONG-TERM DEBT

	December 31, 2020 $	December 31, 2019 $
Loan payable secured by a general security agreement, due July, 2020	–	112,973
Transaction costs	–	(1,108)
	–	111,865
Less current portion	–	111,865
	–	–

Interest expense is presented under finance costs for the following periods:

Year Ended December 31, 2020	1,523
Year Ended December 31, 2019	5,813

During the year ended December 31, 2015, the Company entered into a loan agreement with AFSC for a maximum of $900,000, which was due July 1, 2020. The loan was repayable over a 5-year term and had 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 was secured by a general security agreement covering all present and after acquired personal property. The loan has been fully repaid at December 31, 2020.

7. 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 interest rates between 3.42% – 5.24%.

Year Ended December 31,	**2020 $**	2019 $
Balance at beginning of year	**3,040,750**	3,306,743
Additions	**123,913**	–
Interest expense	**153,063**	152,158
Lease payments	**(418,151)**	(418,151)
Balance at end of year	**2,899,575**	3,040,750
Less current portion	**250,658**	265,123
	2,648,917	2,775,627

In November 2020, the Company entered into a lease modification agreement on its warehouse building lease, extending the recognized lease term by approximately two years to March 31, 2025. The re-measurement of the lease liability has resulted in a $123,913 addition to the lease liability and a corresponding increase to the right of use asset for buildings (see note 5). This non-cash adjustment has been excluded from the Statement of Cash Flows.

7. LEASE LIABILITIES (CONTINUED)

Future minimum lease payments at December 31, 2020 are as follows:

	Within one year $	One to five years $	More than five years $	Total $
Lease payments	391,956	1,682,427	1,549,427	3,623,810
Finance charges	141,298	419,833	163,104	724,235
Net present values	250,658	1,262,594	1,386,323	2,899,575

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

Year Ended December 31,	**2020 $**	2019 $
Short-term leases	**157,827**	200,847

At December 31, 2020, the Company was committed to short term leases and the total commitment at that date was $10,538.

8. 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, 2020		Year Ended December 31, 2019	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of the year	**77,335,841**	**16,401,677**	77,045,008	16,320,522
Stock options exercised	**13,000**	**7,978**	153,333	28,217
Restricted share units vested	**272,500**	**101,412**	137,500	52,938
Balance at end of the year	**77,621,341**	**16,511,067**	77,335,841	16,401,677

In July 2019, the Company issued 137,500 common shares on the vesting and conversion of restricted share units (see note 8 (d)). This non-cash transaction has been excluded from the Statement of Cash Flows.

In January 2020, the Company issued 272,500 common shares on the vesting and conversion of restricted share units (see note 8 (d)). This non-cash transaction has been excluded from the Statement of Cash Flows.

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, 2020, the Company granted 395,000 (December 31, 2019 – 420,000) 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 2020 was 1.62% (2019 – 1.91%), the weighted average expected volatility was 72% (2019 – 80%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years (2019 – 5 years), the forfeiture rate was 0% (2019 – 0%), the weighted average share price was $0.36 (2019 – $0.385), the weighted average exercise price was $0.36 (2019 – $0.385), and the expected dividends were nil (2019 – nil). The weighted average grant date fair value of options granted in the year ended December 31, 2020 was $0.21 (2019 – $0.25) per option.

The share-based payments expense recorded during the current year relating to options granted in 2020, 2019, and 2018 was $86,250 (during 2019 relating to options granted in 2019, 2018, and 2017 – $108,714).

A summary of the status of the Company's stock options at December 31, 2020 and December 31, 2019 and changes during the years ended on those dates is as follows:

	Year Ended December 31, 2020		Year Ended December 31, 2019	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of year	**2,801,168**	**0.62**	2,635,334	0.61
Granted	**395,000**	**0.36**	420,000	0.39
Exercised	**(13,000)**	**0.38**	(153,333)	0.11
Expired	**(60,000)**	**0.33**	–	–
Forfeited	**(74,667)**	**0.55**	(100,833)	0.40
Outstanding at end of year	**3,048,501**	**0.55**	2,801,168	0.62
Exercisable at end of year	**2,663,668**	**0.61**	2,454,501	0.65

Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	**December 31, 2020 Number of Options**	December 31, 2019 Number of Options
0.21	0.36	2025	4.0	**380,668**	–
0.25	0.39	2024	3.0	**372,499**	395,834
0.10	0.33	2020	–	**–**	60,000
0.47	0.50	2028	7.0	**210,000**	210,000
0.56	0.59	2027	6.8	**90,000**	90,000
1.22	1.30	2027	6.3	**10,000**	10,000
1.65	1.75	2027	6.0	**400,000**	400,000
0.34	0.36	2025	4.3	**150,000**	150,000
0.47	0.50	2025	4.1	**100,000**	100,000
0.60	0.64	2025	4.0	**715,334**	765,334
0.37	0.27	2024	3.9	**150,000**	150,000
0.08	0.10	2024	3.0	**300,000**	300,000
0.05	0.10	2023	2.0	**170,000**	170,000
			4.2	**3,048,501**	2,801,168

8. SHARE CAPITAL (CONTINUED)

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, 2020, the Company granted 140,000 RSU's to employees, officers, and directors of the Company. The fair market value of each RSU granted was measured at $0.36, based on the quoted closing price of the Company's stock on the date of grant. The RSU's vested on January 31, 2020 and were converted to common shares during the current year.

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 vested in two equal instalments, the first of which vested 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.

The share-based payments expense recorded during the year ended December 31, 2020, relating to the granting of RSU's was $50,546 (2019 – $103,803).

A summary of the status of the Company's RSU's at December 31, 2020 and December 31, 2019 and changes during the years ended on those dates is as follows:

	Year Ended December 31, 2020 Number of RSU's	Year Ended December 31, 2019 Number of RSU's
Balance at beginning of year	**132,500**	–
Granted	**140,000**	280,000
Forfeited	**–**	(10,000)
Vested	**(272,500)**	(137,500)
Balance at end of year	**–**	132,500

Of the 1,000,000 RSU's authorized for grant under the RSU plan, at December 31, 2020, 370,000 RSU's are available for grant (December 31, 2019 – 510,000).

E. CONTRIBUTED SURPLUS

	Year Ended December 31, 2020 $	Year Ended December 31, 2019 $
Balance at beginning of the year	**4,650,090**	4,501,444
Share-based payments (note 8 (c) & (d))	**136,796**	212,517
Restricted share units vested	**(101,412)**	(52,938)
Stock options exercised	**(3,081)**	(10,933)
Balance at end of the year	**4,682,393**	4,650,090

9. 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,	**2020 $**	2019 $
Opening balance	**134,522**	188,158
Repayment	**(83,884)**	(83,884)
Accretion of CAAP loan	**21,625**	30,248
	72,263	134,522
Less current portion	**72,263**	72,942
	–	61,580

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

10. RELATED PARTY TRANSACTIONS

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

Year Ended December 31,	**2020 $**	2019 $
Key management salaries, short-term benefits, consulting fees, and director fees	**1,013,691**	972,731
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	**21,500**	–
Key management personnel share-based payments	**88,119**	123,346
Amount payable to directors	**40,354**	39,884

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.

11. OTHER EXPENSES

Year Ended December 31,	**2020 $**	2019 $
Foreign exchange loss	**165,520**	196,058
Other expense (income)	**3,836**	(15,047)
Plant relocation costs	**89,878**	191,839
Quality management system	**–**	176,529
	259,234	549,379

12. FINANCE COSTS

Year Ended December 31,	**2020 $**	2019 $
Interest on long-term debt	**1,523**	5,813
Interest on lease liabilities	**152,015**	165,436
Transaction costs	**1,108**	4,187
Royalties	**55,000**	55,000
Accretion of CAAP loan	**21,625**	30,248
	231,271	260,684

13. EMPLOYEE BENEFITS EXPENSE

Year Ended December 31,	**2020 $**	2019 $
Employee benefits	**4,142,673**	4,256,172

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.

14. INCOME TAXES

(A) INCOME TAX EXPENSE (RECOVERY)

Components of income tax expense are:

	December 31, 2020 $	December 31, 2019 $
Current tax expense (recovery)	**–**	–
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	**478,648**	(242,886)
Tax rate changes and tax rate differences	**(144,932)**	385,640
Change in unrecognized deductible temporary differences	**(232,341)**	(174,279)
Prior period adjustments	**(101,375)**	28,117
Income tax benefit	**–**	(3,408)

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, 2020 $	December 31, 2019 $
Income (loss) before tax	**1,856,100**	(1,136,036)
Statutory income tax rate	**24.00%**	26.50%
Expected income tax expense (benefit)	**445,464**	(301,050)
Increase (decrease) resulting from:		
Non taxable items	**33,184**	58,164
Change in unrecognized deductible temporary differences	**(232,341)**	(174,279)
Change in tax rates and rate differences	**(144,932)**	385,640
Prior period adjustments	**(101,375)**	28,117
Income tax benefit	**–**	(3,408)

14. INCOME TAXES (CONTINUED)

(B) RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

	December 31, 2020 $	December 31, 2019 $
Deferred tax assets are attributable to the following:		
Patents	**141,739**	158,348
Intangibles	**50,925**	54,759
Other	**1,043**	1,172
Share issuance costs	**–**	40,654
Lease liability	**666,902**	699,373
Non-capital losses	**1,958,027**	1,898,423
Deferred tax assets	**2,818,636**	2,852,729
Offset by deferred tax liabilities	**(1,944,332)**	(2,474,086)
Net deferred tax asset	**874,304**	378,643
Deferred tax liabilities are attributable to the following:		
Property and equipment	**(2,772,335)**	(2,701,992)
CAAP loan and long-term debt	**(2,673)**	(8,084)
Inventory	**–**	(2,882)
SRED investment tax credits	**(43,628)**	(139,771)
Deferred tax liabilities	**(2,818,636)**	(2,852,729)
Offset by deferred tax assets	**1,944,332**	2,474,086
Net deferred tax liability	**(874,304)**	(378,643)

(C) UNRECOGNIZED DEFERRED TAX ASSETS

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

	December 31, 2020 $	December 31, 2019 $
Deductible temporary differences	**184,396**	249,033
Tax losses	**11,818,631**	14,138,130
	12,003,027	14,387,163

The non-capital loss carryforwards expire between 2026 and 2040. 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.

15. 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.

16. 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 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 finished products is sold directly to the end-user primarily through website sales online and also through select natural products 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,	**2020** **$**	2019 $
United States	**10,403,154**	8,014,374
Germany	**3,289,593**	2,677,508
China	**1,299,106**	2,076,356
Other	**65,346**	69,073
Canada	**64,083**	42,695
	15,121,282	12,880,006

During the year ended December 31, 2020, the Company had export sales to one major distributor of the Company's products in the aggregate amount of $13,543,881 representing 90% of total revenue (2019 – $11,213,782 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, 2020:

	Active Ingredient Product Technology Industry $	Cosmeceutical Industry $	Total $
Revenue from external sales	15,094,250	27,032	15,121,282
Gross margin	7,638,940	(16,654)	7,622,286
Other income (expenses)	(259,234)	–	(259,234)
Income (loss) before tax	2,224,256	(368,156)	1,856,100
Income tax benefit	–	–	–
Net income (loss) and comprehensive income (loss)	2,224,256	(368,156)	1,856,100
Depreciation and amortization	1,839,289	1,744	1,841,033
Share-based payments	136,796	–	136,796
Additions to property and equipment	665,490	–	665,490

At December 31, 2020:

	Active Ingredient Product Technology Industry $	Cosmeceutical Industry $	Total $
Property and equipment	18,585,564	5,625	18,591,189
Segment assets	28,993,481	230,250	29,223,731
Segment liabilities	4,888,626	25,138	4,913,764

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 income (expenses)	(549,379)	–	(549,379)
Income (loss) before tax	(491,571)	(644,465)	(1,136,036)
Income tax benefit	–	3,408	3,408
Net income (loss) and comprehensive income (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

16. SEGMENTED INFORMATION (CONTINUED)

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

17. 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

The 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(s) 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 is not materially different from its carrying amount 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, 2020		December 31, 2019	
	Book value	**Fair value**	Book value	Fair value
Financial assets:				
Cash and cash equivalents	**$ 5,369,029**	**$ 5,369,029**	$ 1,857,195	$ 1,857,195
Trade and other receivables	**2,121,947**	**2,121,947**	3,706,353	3,706,353
Financial liabilities:				
Accounts payable and accrued liabilities	**$1,067,622**	**$1,067,622**	$1,291,204	$1,291,204
Long-term debt	**–**	**–**	111,865	111,865
CAAP loan	**72,263**	**72,263**	134,522	134,522

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 90% of trade receivables are due from one distributor at December 31, 2020 (December 31, 2019 – 97% 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, 2020 $	December 31, 2019 $
Not yet due	**407,993**	1,481,978
Less than 30 days past due	**1,419,731**	1,954,651
Less than 60 days past due, more than 30 days past due	**191,999**	–
More than 60 days past due	**–**	222,912
Total	**2,019,723**	3,659,541

The Company has not assessed any trade receivables past due as impaired.

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, 2020 and December 31, 2019 are not significant and have not been recognized.

Other receivables represent amounts due for research program claims, government funding 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 $5,369,029 at December 31, 2020 (December 31, 2019 – $1,857,195) 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 at December 31, 2020:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	1,067,622	–	–	–	1,067,622
CAAP loan	83,884	–	–	–	83,884
Total	1,151,506	–	–	–	1,151,506

17. 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. The amounts have been translated based on the exchange rate at December 31, 2020.

	Carrying Amount (USD)	FOREIGN EXCHANGE RISK (CDN)	
		− 1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	1,583,613	20,162	(20,162)
Financial liabilities			
Accounts payable and accrued liabilities	170,811	(2,175)	2,175
Total increase (decrease)		17,988	(17,988)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2020.

2. Interest rate risk

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

18. 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, 2020.

19. 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 9).

b) 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. At December 31, 2019, NRC-IRAP and the Company agreed to amend the contribution agreement to decommit $25,000 of the non-repayable funding. The agreement has been amended twice in 2020. During the first quarter of 2020, NRC-IRAP and the Company agreed to amend the contribution agreement to increase funding by $107,000 for the period April 1, 2020 – March 31, 2022 and in October 2020, the contribution agreement was amended again to increase funding by $240,000 for the period April 1, 2020 to March 31, 2022. During the year ended December 31, 2020, the Company received or recorded as a receivable $367,542 which has been recorded as a reduction of research and project development expenses. The Company anticipates receiving an additional $68,522 during fiscal 2021.

20. 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 $	Lease Liabilities $	Total $
Balance January 1, 2020	111,865	134,522	3,040,750	3,287,137
Cash changes				
Repayments	(112,973)	(83,884)	(265,088)	(461,945)
Non cash changes				
Amortization of transaction costs	1,108	–	–	1,108
Accretion	–	21,625	–	21,625
Lease modification adjustment	–	–	123,913	123,913
Balance December 31, 2020	–	72,263	2,899,575	2,971,838

	Long-term debt $	CAAP loan $	Lease Liabilities $	Total $
Balance January 1, 2019	447,306	188,158	3,306,743	3,942,207
Cash changes				
Repayments	(339,321)	(83,884)	(265,993)	(689,198)
Non cash changes				
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	3,040,750	3,287,137

21. INCOME (LOSS) PER COMMON SHARE

Year Ended December 31,	**2020**	2019
Net income (loss) for the year for basic and diluted earnings per share calculation	**$1,856,100**	($1,132,628)
Weighted average number of common shares outstanding	**77,594,629**	77,188,505
Effect of dilutive stock options and warrants	**548,404**	–
Diluted weighted average number of common shares	**78,143,033**	77,188,505
Income (loss) per share – basic	**$0.02**	($0.01)
Income (loss) per share – diluted	**$0.02**	($0.01)

For the year ended December 31, 2020, 1,528,667 stock options outstanding have not been included in the diluted income per share calculation because the options' exercise price was greater than the average market price of the common shares during the year.

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

Investor Information – April 20, 2021

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

OFFICERS
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President & CEO

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

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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:

May 26, 2021 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.

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