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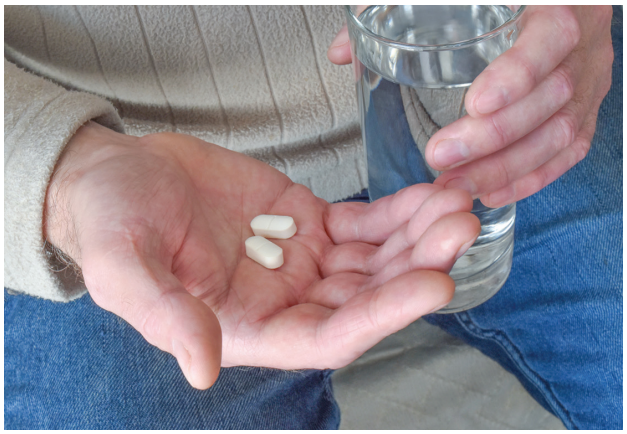

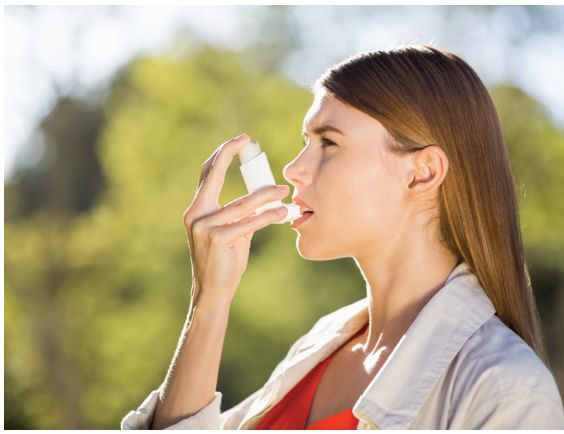

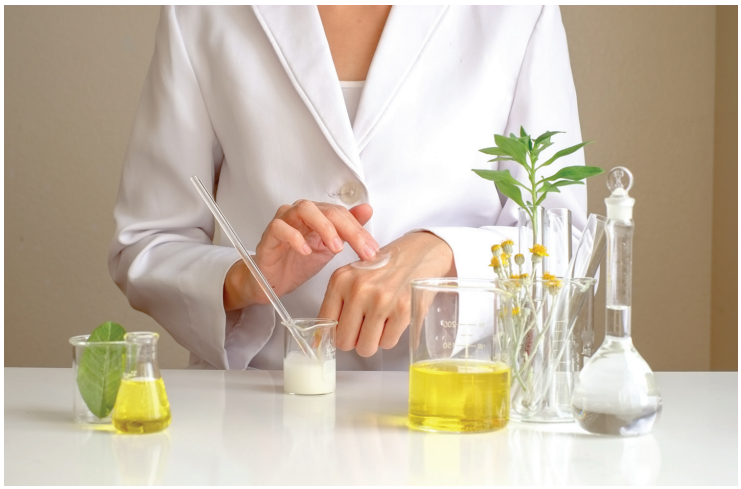

CEAPRO
Nature Enhancing Life®

Annual Report 2021

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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

We are very proud of achievements made in 2021 on all fronts from production operations to research and development, allowing us to expand our pipeline to build a high value life sciences company focused on immune and inflammation-based diseases.

A 14% year over year increase in sales for our base business is absolutely remarkable especially during such a year marked by a continued COVID-19 pandemic, inflationary pressure, issues related to availability of inputs, persistently high logistical transportation costs and labour scarcity. Despite these challenges, our team worked tirelessly to meet strong demand for our products and deliver one of the best ever performances in the Company's history.

In addition to excellent financial and operational results, key highlights of the year include *the development of avenanthramide pills for a Phase 1 study, advancing the development of innovative delivery systems with new chemical complexes and the processing of yeast beta glucan from various sources for the development of an immune booster and as a potential inhalable therapeutic for COVID-19*.

Over the course of the year, we are committed to building on the following 2021 achievements.

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

    1. **Avenanthramides:**
        - Announced expanded collaboration with Montreal Heart Institute (MHI) with new clinical study evaluating flagship product, avenanthramides, as a new potential pharmaceutical product. This Phase 1 safety and tolerability study will be led by renowned Dr. Jean-Claude Tardif. Published positive results from Ceapro's previously conducted study evaluating anti-inflammatory properties of low doses of avenanthramides in exercise-induced inflammation paved the way for this clinical trial.
        - Agreement signed with Corealis to formulate 30mg and 240mg dosage pills to be used in Phase 1 study with MHI.
        - Completed physical characterization of avenanthramides and continued to monitor stability studies with new powder formulations.
        - Completed the Phase 1 study protocol which expects to enroll approximately 72 patients.

    2. **Oat Beta Glucan:**
        - Announced research agreement with Boston-based Angiogenesis Foundation to assess *in vivo* bioefficacy of oat beta glucan and avenanthramides in angiogenesis, blood vessel repairs, and wounds to assess healing and tissue regeneration in various inflammation-based diseases and conditions like COVID-19 presenting damage of the lung blood vessels.

- Completed pilot clinical trial evaluating oat beta glucan in patients with high cholesterol levels. While there were positive signals that beta glucan nutraceutical formulation may offer appreciable health benefits as indicated with approved Health Canada's beta glucan monograph (Natural Product Division), the study did not achieve, in a statistically significant manner, the expected primary endpoint related to a decrease of low-density lipoproteins cholesterol when using Ceapro's pill dosage form. Project on hold at this time.

3. Yeast Beta Glucan (YBG):

- Analyzed and screened YBG feedstock from numerous global suppliers to select ideal sources for best possible product.

- Identified process conditions for YBG improving morphology of YBG processed using PGX Technology (PGX-YBG) to boost immunomodulating activity.

- Further developed custom-shape formulations of PGX-YBG for oral administration.

- Obtained further evidence confirming that PGX-YBG is suitable for lung inhalation.

- Demonstrated, *in vitro*, that PGX processed YBG can prevent the activation of macrophages toward a pro-fibrotic phenotype which, according to experts in the field, is seen as a viable therapeutic strategy toward fibrotic disease.

    - PGX-YBG binds to specific receptors (Dectin 1) located on macrophages responsible for the cascade of immunomodulating events when activated.

    - McMaster's research team discovered a new mechanism of action as per PGX-YBG's ability to reprogram macrophages on its own.

- Continuing PGX-YBG project with McMaster University to assess preclinical animal models to determine posology.

- Initiated studies with a medical device manufacturer to assess aerosol/nebulizer device for inhalation of YBG.

- Proved, using an *in vitro* study, that the Company's PGX Technology maintains the integrity of the YBG molecular structure and enhances its microscopic morphology which leads to a boost in its immunomodulatory activity without generating proinflammatory reaction.

- Based on these attributes, PGX-YBG is poised to become a key strategic asset for the Company.

4. **New Chemical Complexes:**

    - Announced the successful completion of a long-term research program conducted with the University of Alberta. This screening program allowed Ceapro to retain the most promising products, such as PGX-alginate, and expand the PGX-processed products pipeline. Combination of alginate and YBG, leading to tunable PGX composites, are now viewed as the most promising products developed from this research program.
    - Pursued bioavailability studies with the University of Alberta for new chemical complexes YBG-CoQ10, alginate-CoQ10 and the newly formed alginate-YBG-CoQ10. Results are expected in Q3 2022.

5. **Technology:**

    - Continued significant technical improvements of the existing PGX plant in Edmonton to develop equipment for the production of PGX-YBG for the purpose of generating material suitable for nutraceutical and lung delivery.
    - Ongoing engineering design in collaboration with experts in the field for designing and building a PGX processing commercial unit. Alginate and yeast beta glucan would be the first products to be processed at large scale level. Given regulatory requirements and to accelerate market entry, yeast beta glucan as a standalone and/or in combination with alginate will be developed at first as a nutraceutical/immune booster.
    - Pursued installment in Edmonton of a commercial scale unit for loading of bioactives onto PGX-processed biopolymers. This system allows loading of active pharmaceutical ingredients, like ibuprofen, onto thin soluble PGX alginate strips for wound healing or oral applications.
    - Continued projects with the University of Alberta and McMaster University for the development of potential delivery systems for multiple applications in healthcare.

- **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 290 metric tons of active ingredients in 2021, a 20% 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:**
    - Fully repaid loan with Canadian Agricultural Adaptation Program (CAAP).
    - Effective December 31, 2021, the Company wound up Ceapro Technology Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc. into the Company and dissolved Ceapro USA Inc. Juvente^{DC} Inc. remains the only active fully-owned subsidiary of Ceapro Inc.
    - Announced expansion of a grant from National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP) to further develop the patented PGX Technology to increase its innovation capacity by designing the first pharmaceutical PGX processing unit along with bioactive impregnation and loading units.
    - Pursued out-licensing discussions for PGX-processed new chemical complexes.

    Subsequent to Year End

    - Signed a Supply and Distribution Agreement with Symrise securing the long-term sustainability of Ceapro's base business.
    - Appointed Mr. Ronnie Miller, former long-serving President & CEO of Roche Canada a key component of multinational Roche Holding AG's pharmaceutical and diagnostics network, and Ms. Genevieve Foster, an accomplished lawyer, corporate director, governance expert and businesswoman to the Company's Board of Directors.

- **Financial:** fiscal 2021 showed a 14% growth in sales driven by impressive sales increases in the Company's primary products and a 22% increase in sales volume in the Company's primary products. 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 2021 key achievements and initiatives which we fully credit to our remarkable team.

Moving forward, while the Company's business has not been significantly impacted by the COVID-19 pandemic, management remains very vigilant in ensuring the highest level of safety for Ceapro's employees. Depending on the evolution of this pandemic situation and assuming minimal supply chain disruptions, we strongly believe the prospects for the Company remain very positive for the upcoming year.

We expect Ceapro's cosmeceuticals base business to continue growing and provide positive cash flows to support the expansion of a new business model to a high value life science/biopharmaceutical company involved in nutraceuticals and pharmaceuticals. We then expect to further invest in R&D to initiate an early clinical trial with our newly developed pill of avenanthramide, to continue the development of new chemical complexes as potential delivery systems for bioactives, and to emphasize our current efforts for the development and assessment of yeast beta glucan as immune booster and as a potential inhalable therapeutic for lung fibrotic diseases including COVID 19 conditions.

Additionally, results from bioavailability studies with new chemical complexes and results with yeast beta glucan as an immune booster will drive decisions for the magnitude of capital expenditures to be incurred for the building of a commercial scale unit for PGX Technology either as a Ceapro stand-alone project or in partnership with another company.

In conclusion, your Company made significant progress in 2021 and we continue to believe that Ceapro has all the key components for continued success. This is predicated on a very solid and profitable base business, a highly competent team, a healthy balance sheet, and a strong technology and product portfolio with the potential to access key global markets.

We are 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 19, 2022

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 decade have focused on overcoming these challenges to stay profitable and ahead of competitors by successfully developing and implementing 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 make products in a production site which has been audited by major customers, certified according to international quality systems and licenced by Health Canada Natural Product Directorate to manufacture, package, label, release and distribute final products.

Proprietary Drying Technologies

- ### Chromatography for High Purity of Avenanthramides

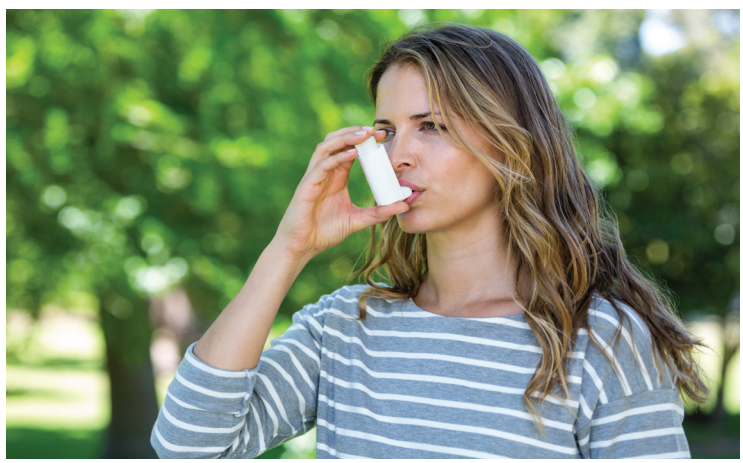
An in-house project was conducted to generate a unique class of avenanthramides (AVs). The scientific literature reports that AVs offer natural alternatives to treat inflammation-based diseases such as atherosclerosis and inflammatory bowel disease. However, AVs are only available at small concentration in oats and so a process was established and improved to concentrate and purify them on a large manufacturing scale to generate AVs concentrates required to obtain stability, physical characterization and clinical data through targeted studies.

Previous clinical trials at the University of Minnesota using Ceapro's purified AVs supported anti-inflammatory claims for avenanthramides as a nutraceutical product and motivated Ceapro to design a phase 1 clinical trial along with experts at Montreal Heart Institute. It also led Ceapro to initiate a study with the Boston-based Angiogenesis Foundation. This Foundation is a prestigious independent scientific organization focused on driving innovations in health promotion, disease prevention, and disease treatment. Preliminary *in vitro* results indicated that Ceapro's pharmaceutical grade AVs formulations stimulate the proliferation and migration of vascular endothelial cells in a dose-dependent manner. Under the collaboration, pre-clinical studies, using methods developed by the Angiogenesis Foundation, will be conducted to characterize the *in vivo* bioactivity of Ceapro's products on angiogenesis, blood vessels repair, wound healing, and tissue regeneration. All these efforts will ensure the successful incorporation of highly purified dried AVs powder into new natural based pharmaceutical formulations to treat key inflammation-based diseases.

- ### Pressurized Gas eXpanded Technology (PGX)

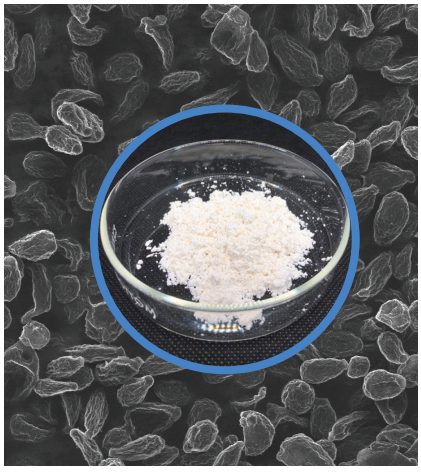
The PGX Technology is a patented platform technology that simultaneously purifies, micronizes, dries, and combines aqueous solutions of biopolymers into fine structured open porous materials with unique morphologies using carbon dioxide (CO2) and ethanol at mild temperatures. The resulting matrix has increased surface area that can be loaded with actives using an impregnation technology that was perfected by Ceapro.

The PGX Technology was used for the development of new chemical complexes. As an example, Ceapro successfully developed a new chemical complex composed of alginates impregnated with a drug as a wound dressing to fight superbugs. This innovative combination product, with the potential for clinical benefits, paved the way to a plethora of new innovative products with the potential to act as delivery systems for a wide range of applications under various forms of administration: topical, oral/sublingual, inhalation.



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 while demonstrating that PGX Technology can not only dry and micronize a very important enzyme called lysozyme, but also improve its morphology and activity. These projects also contributed to our knowledge of impregnation mechanisms and relevant parameters to further scale-up this important aspect of developing bioactive delivery systems.

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 the project where the goal is to develop PGX yeast beta glucan as an inhalable immunomodulating therapeutic on its own, without requiring a drug, for COVID-19 patients and other fibrotic lung diseases.



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.

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 demonstration 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 potential sublicensing and scale-up of the PGX Technology at commercial level.

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, its has been reported that oral administration of Ceapro's flagship product, avenanthramides, could be beneficial in serious conditions like inflammatory bowel syndrome, atherosclerosis, colon cancer, and joint inflammation. These findings led Ceapro's team to successfully develop avenanthramides as an active pharmaceutical ingredient (API) as powder formulations.

Update and Ceapro's Opportunity

- **Functional Food**

Ceapro's pharmaceutical grade powder 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 and positive results showing the anti-inflammation properties of avenanthramides were presented at prestigious conferences and published in peer reviewed scientific journals. Data demonstrating the immunoregulatory mechanism of action of avenanthramides even at low doses, 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 also paving the way for initiation of clinical studies using high doses of Ceapro's new pharmaceutical grade tablets of avenanthramides to be assessed as a potential treatment for some inflammation-based diseases. A Phase 1 protocol was designed with the expert team led by renowned Dr. Jean-Claude Tardif at the Montreal Heart Institute. The placebo-controlled safety and tolerability study will include 72 patients distributed in single and multiple ascending doses regimen. Should data from this Phase 1 study be favorable, such a long-term clinical program would be conducted with a pharmaceutical partner.

BETA GLUCAN

Ceapro's value driver product, beta glucan, is recognized 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 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. This "award winning" formulation was presented as an out-licensing candidate to potential partners. While recognizing the potential benefits, potential licensees view it as an excellent proof of principle. Also, given the challenging high price of this new complex, they are more interested to in-license 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 are conducted at the University of Alberta with results expected during Q3, 2022.

- **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 enrolled 264 patients randomized in three groups. The study was completed in Q4, 2021.

While there were positive signals that beta glucan nutraceutical formulation may offer appreciable health benefits as indicated with approved Health Canada's beta glucan monograph (Natural Product Division), the study did not achieve in a statistically significant manner the expected primary endpoint related to a decrease of low-density lipoproteins cholesterol when using Ceapro's pill dosage form. A recent study conducted by a research group in Italy used a powder formulation of beta glucan dissolved in water and demonstrated the expected outcomes of beta glucan as a cholesterol reducer. Despite the fact that this study suggests that a liquid formulation dissolves quicker in the gastrointestinal tract than a pill formulation, Ceapro is putting this project on hold at this time.

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. While we sell mostly through a network of distributors, 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 offer a new Juvente line of products containing higher concentrations of our two value drivers avenanthramides and beta glucan. These formulations are currently part of a pilot project in Germany and Japan where they will also 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 to be included in some well-known brands. These high concentration products of both liquid and powder formulations of avenanthramides are produced from our proprietary enabling technologies.

BETA GLUCAN

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

Update and Ceapro's Opportunity

The offering of Juvente^{DC} products containing both our two value drivers avenanthramides and beta glucan is in line with our delivery platform strategic approach. Given significant improvements observed in some subjects suffering from eczema and psoriasis, these observations suggest that beta glucan acts as a carrier to help avenanthramides penetrate deeper to reach the dermis level of the skin where they would exert their beneficial effect. Based on 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 are developing various combinations of bioactive substances, one of them potentially for the treatment of conditions indicating a precursor form of skin cancer.

:: Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the years ended December 31, 2021 and 2020, the financial position as at December 31, 2021, and the outlook of Ceapro Inc. ("Ceapro" and "the Company") based on information available as at April 12, 2022. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2021, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2020, 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, 2020. All comparative percentages are between the years ended December 31, 2021 and 2020 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 12, 2022 and contains forward-looking statements. Forward-looking statements and information can generally be identified by the use of forward-looking terminology such as 'may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", "plans", or similar terminology. 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. Effective December 31, 2021, the Company wound up Ceapro Technology Inc., Ceapro Active Ingredients Inc. and Ceapro BioEnergy Inc., into the Company and dissolved Ceapro USA Inc.

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 93% of trade receivables are due from one distributor at December 31, 2021 (December 31, 2020 – 90% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	December 31, 2021 $	December 31, 2020 $
Not yet due	**1,378,587**	407,993
Less than 30 days past due	**262,125**	1,419,731
Less than 60 days past due, more than 30 days past due	**413,842**	191,999
More than 60 days past due	**38,288**	–
Total	**2,092,842**	2,019,723

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, 2021 and December 31, 2020 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 $7,780,989 at December 31, 2021 (December 31, 2020 – $5,369,029) 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 is the contractual maturity of the Company's financial liabilities and obligations as at December 31, 2021:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	682,057	–	–	–	682,057

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, 2021.

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (CDN)	
		–1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial assets			
Accounts receivable	1,649,144	20,907	(20,907)
Financial liabilities			
Accounts payable and accrued liabilities	151,492	(1,921)	1,921
Total increase (decrease)		18,987	(18,987)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2021.

2. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The Company has minimal interest rate risk because it has no long-term debt.

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) OPERATION FACTORS

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.

F) SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Ceapro's consolidated financial statements are prepared within a framework of IFRS. 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 lease term and discount rate used to measure leases, and the assumptions used in determining share-based compensation. 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.

G) 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.

H) 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.

I) 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.

J) 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.

K) 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.

L) 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.

M) INTELLECTUAL PROPERTY

Ceapro's success will depend, in part, on its ability to obtain and maintain patents and trademarks and to secure and protect trade secrets, proprietary technology and manufacturing processes, and other intellectual property rights either developed internally or acquired, and to operate without infringing on the proprietary rights of others or have others infringe on its rights. Although Ceapro expends significant resources and efforts to patent its discoveries and innovations, there can be no assurance that patent applications will result in the issuance of patents or that any patents issued to Ceapro will provide it with adequate protection or any competitive advantages, or that such patents will not be successfully challenged by third parties. The Company cannot be assured competitors will not independently develop products similar to the Company's products designed to circumvent exclusive rights granted to the Company

N) CYBER SECURITY

The Company depends upon the reliability and security of our information technology systems in the normal course of operations. Ceapro is subject to a variety of information technology and systems risks including virus, cyber-attacks, security breach, and destruction or interruption of information technology systems. Although the Company has controls and security measures in place that are designed to mitigate these risks, a breach of these measures could occur and result in a loss of material and confidential information and disruption to business activities.

O) 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.

P) 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. In addition to the impact on operations, these same disruptions may also adversely affect our research and development partners, research institutions, and laboratories which can negatively impact and delay our research programs. 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, 2021, 2020, AND 2019

CONSOLIDATED INCOME STATEMENT

$000s EXCEPT PER SHARE DATA	**2021**	**%**	2020	%	2019	%
Total revenues	**17,195**	**100%**	15,121	100%	12,880	100%
Cost of goods sold	**7,506**	**44%**	7,499	50%	7,435	58%
Gross margin	**9,689**	**56%**	7,622	50%	5,445	42%
Research and product development	**3,779**	**22%**	1,882	12%	2,394	19%
General and administration	**3,240**	**19%**	3,283	22%	2,952	23%
Sales and marketing	**47**	**0%**	111	1%	425	3%
Finance costs	**207**	**1%**	231	2%	261	2%
Income (loss) from operations	**2,416**	**14%**	2,115	14%	(587)	–5%
Other expenses	**202**	**1%**	(259)	–2%	(549)	–4%
Income (loss) before tax	**2,618**	**15%**	1,856	12%	(1,136)	–9%
Income tax benefit	**224**	**1%**	–	0%	3	0%
Net income (loss)	**2,842**	**17%**	1,856	12%	(1,133)	–9%
Basic net income (loss) per common share	**0.04**		0.02		(0.02)	
Diluted net income (loss) per common share	**0.04**		0.02		(0.02)	

The following sections discuss the consolidated results from operations.

REVENUE

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2021**	2020	CHANGE	**2021**	2020	CHANGE
Total revenues	**17,195**	15,121	14%	**3,562**	2,706	32%

Revenue for the year ended December 31, 2021 increased by approximately $2,074,000 or 14% over the prior year. The increase was driven by volume sales increases in all of the Company's primary products. The increase in revenue occurred despite being offset by a lower U.S. dollar relative to the Canadian dollar compared to the prior year, which negatively impacted revenue by approximately $1,358,000.

Revenue for the fourth quarter ended December 31, 2021 increased by approximately $856,000 or 32% over the comparative quarter in 2020. The Company benefited from sales volume increases in the flagship products but primarily from an increase in sales of beta glucan in the quarter. The increase in revenue was negatively impacted by approximately $126,000 from a lower U.S. dollar relative to the Canadian dollar compared to the prior quarter in 2020.

EXPENSES

COST OF GOODS SOLD AND GROSS MARGIN

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2021**	2020	CHANGE	**2021**	2020	CHANGE
Sales	**17,195**	15,121	14%	**3,562**	2,706	32%
Cost of goods sold	**7,506**	7,499	0%	**1,718**	1,704	1%
Gross margin	**9,689**	7,622	27%	**1,844**	1,002	84%
Gross margin %	**56%**	50%		**52%**	37%	

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 property and equipment. 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.

For the year ended December 31, 2021, revenue increased by approximately 14% and cost of goods sold did not change, this resulted in an increase in the gross margin percentage from 50% in the prior year to 56% in the current year. The improvement on the margin was primarily driven by the excellent quality of grain that was sourced from last season's growing period which has significantly improved output from the manufacturing process. Annual production was 18% higher in 2021 compared to 2020, while at the same time overhead costs were lower, primarily as a result of only operating out of one manufacturing facility for the entire year.

During the fourth quarter of 2021, revenue increased by 32%, but cost of goods sold only increased by 1%. This contributed to a significant increase in the gross margin percentage from 37% in the comparative quarter to 52% in the current quarter. The margin improved over the comparative quarter partially due to the excellent quality of grain used, as previously noted, and also partially due to the fact production in the fourth quarter of the prior year was disrupted from the impact of transitioning from the Leduc site to the Edmonton site. Overhead costs between the current and comparative quarter were almost exactly the same.

The 52% margin percentage for the fourth quarter of 2021, however, was not quite as high as that experienced in the previous two quarters (Q2 – 54%, Q3 – 58%) and this was due to a few factors. Production in the fourth quarter was lower than previous quarters, partially due to some supply chain disruptions on critical raw materials which led the Company to

focus on training and maintenance in the quarter instead, and partially due to an escalation of prices nearly across the board on raw materials used to produce our products. Despite these challenges, customer sales supply needs were always met and emphasis was placed on building up critical raw material inventories to ensure uninterrupted product delivery in the new year.

RESEARCH AND PRODUCT DEVELOPMENT

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2021**	2020	CHANGE	**2021**	2020	CHANGE
Salaries and benefits	**1,049**	797		**255**	212	
Regulatory and patents	**176**	160		**31**	22	
Clinical studies	**1,694**	643		**100**	264	
Other	**860**	282		**342**	3	
Total research and product development expenditures	**3,779**	1,882	101%	**728**	501	45%

For the year ended December 31, 2021, research and development expenses have increased by $1,897,000 or 101% over the prior year. The increase is primarily due to higher expenditures related to the pilot clinical study for the development of beta glucan as a cholesterol reducer, higher expenditures on other projects, and higher salaries and benefits expense.

During the quarter ended December 31, 2021, research and development expenses increased by $227,000 or 45%. The increase is primarily due to higher expenditures on other projects and to a lesser extent higher salaries and benefits expense offset partially by lower expenditures on the pilot clinical study as it was completed during the current quarter.

Enrollment of the beta glucan study steadily increased during the second half of fiscal 2020 and this continued until full enrollment was reached during the first half of 2021. Expenditures related to the study increased during the current year as all patients were completing their trials as compared to the prior year where activity on the study was delayed while regulatory approval from Health Canada was being obtained for a protocol amendment. The last patient last visit was completed in September 2021 and the study results were completed and reported in the fourth quarter of 2021. Although there were some positive findings, the study did not result in a statistically significant outcome compared to placebo. As a result of the completion of the study, clinical studies expenditures in the current quarter ended December 31, 2021 were lower than the comparative quarter.

Research and development salaries expense is higher in both the current quarter and year ended December 31, 2021 compared to the prior periods primarily due to lower grant funding received in the current periods.

Expenditures on other projects during the current quarter and year ended December 31, 2021 are significantly higher than the comparative periods primarily due to the initiation of a new in-vivo study on our active ingredients, an increase on expenditures relating to the protocol development of a new clinical study on avenanthramides, a new bioavailability study on various polymers impregnated with CoQ10, and slightly higher expenditures on the Company's PGX technology. Impacting only the fourth quarter of the current and prior year is the receipt of refunds from scientific research and development tax credit filings that offsets the expense; the amount received in the current quarter is significantly lower than the prior quarter. The Company expects to continue investing significantly in research and development spending in 2022 which is 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.

GENERAL AND ADMINISTRATION

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2021**	2020	CHANGE	**2021**	2020	CHANGE
Salaries and benefits	**768**	807		**214**	172	
Consulting	**560**	480		**120**	120	
Licensing activities	**262**	240		**64**	86	
Board of Directors compensation	**162**	202		**40**	44	
Insurance	**176**	152		**49**	41	
Accounting and audit fees	**120**	111		**32**	16	
Rent	**68**	60		**18**	16	
Public company costs	**467**	572		**95**	137	
Travel	**30**	46		**12**	7	
Depreciation and amortization	**339**	352		**86**	87	
Legal	**34**	19		**17**	2	
Other	**254**	242		**61**	60	
Total general and administration expenses	**3,240**	3,283	–1%	**808**	788	3%

For the year ended December 31, 2021, general and administration expense decreased by $43,000 or 1% from the prior year. Expenses overall are very consistent with the prior year. One of the more significant differences was a decrease in public company costs as some of the investor communication programs in 2020 were scaled back in 2021 which was partially offset by additional consulting fees paid to an officer of the Company.

General and administrative expense for the quarter ended December 31, 2021 increased by $20,000 or 3% over the comparative quarter. Expenses overall are also very consistent with the prior quarter. One of the more significant increases relates to an increase in salaries and benefits in the current quarter which is primarily due to the recognition of $26,292 of wage subsidy recognized in the Company's subsidiary in the fourth quarter of the prior year, whereas this year's subsidy was much lower and primarily recognized earlier in the year. Accounting and legal fees also increased in the fourth quarter of 2021 due to a corporate reorganization of wholly-owned subsidiaries. These noted increases were partially offset by lower public company costs in the current quarter for the same reason as noted for the year.

SALES AND MARKETING

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2021**	2020	CHANGE	**2021**	2020	CHANGE
Sales and marketing salaries	**–**	1		**–**	–	
Courses, conferences & advertising	**46**	109		**12**	20	
Other	**1**	1		**–**	1	
Total sales and marketing	**47**	111	–58%	**12**	21	–43%

Sales and marketing expense for the year ended December 31, 2021 – decreased by $64,000 or 58% from the comparative year.

For the quarter ended December 31, 2021, sales and marketing expense decreased by $9,000 or 43% from the comparative quarter.

The decrease is primarily attributable to lower advertising and marketing expenditures in Juvente as the Company is not focusing on these activities while the COVID-19 pandemic has restricted sales activities primarily to website sales in the subsidiary. Due to COVID-19 travel and safety restrictions, all in-person conferences and trade shows have continued to be deferred until it is determined to be safe to attend.

FINANCE COSTS

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2021**	2020	CHANGE	**2021**	2020	CHANGE
Interest on lease liabilities	**140**	152		**34**	37	
Royalties	**55**	55		**–**	–	
Accretion of CAAP loan	**12**	22		**3**	6	
Interest on long-term debt	**–**	1		**–**	(1)	
Transaction costs	**–**	1		**–**	–	
	207	231	–10%	**37**	42	–12%

Finance costs decreased by 10% or $24,000 in the year ended December 31, 2021, from $231,000 in 2020 to $207,000. The decrease is primarily attributable to lower accretion on the CAAP loan and lower interest on the lease liabilities as the principal portions of these liabilities are lower from ongoing repayment during the year. The decrease is also partially due to there being no interest on long-term debt or transaction costs in the current year as the long-term debt was fully repaid in July 2020.

Finance costs for the quarter ended December 31, 2021 decreased by 12%, from $42,000 in 2020 to $37,000, due to the same factors that impacted the year.

OTHER EXPENSES (INCOME)

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2021**	2020	CHANGE	**2021**	2020	CHANGE
Foreign exchange loss	**76**	165		**62**	192	
Plant relocation costs	**102**	90		**25**	(4)	
Gain on disposal of equipment	**(5)**	–		**–**	–	
Other expense (income)	**(1)**	4		**(7)**	–	
Recognition of investment tax credits	**(374)**	–		**(374)**	–	
	(202)	259	–178%	**(294)**	188	–256%

During the year ended December 31, 2021, other expense decreased by $461,000 or -178% from an expense of $259,000 to other income of $202,000. The decrease was primarily due to the recognition of an investment tax credit receivable and a lower foreign exchange loss during the year compared to the prior year.

During the fourth quarter ended December 31, 2021, other expenses decreased by $482,000 or -256%. The decrease was primarily due to the recognition of an investment tax credit receivable and a lower foreign exchange loss in the current quarter compared to the prior quarter offset by a slight increase in plant relocation costs.

During the year, the Company recorded an investment tax credit receivable of $374,000 related to its qualifying expenditures for scientific research and experimental development costs which have been earned in years prior to 2021 but not previously recognized. In 2021, the Company determined that there is reasonable assurance, based on estimated future taxable income, that these credits will be realized. In the year investment tax credits are generated, if recognized, they will offset the related expenditures; however, in the current year, as the investment tax credits related to prior years expenditures, they have been recognized in other (income) expense.

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 fourth quarter of 2021, the US dollar weakened resulting in a foreign exchange loss, but not to the same extent that it did in the

comparative quarter. The overall foreign exchange loss realized in the year ending December 31, 2021 was also considerably lower than the comparative year in 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. While the Leduc manufacturing facility was shut down in the third quarter of 2020 and was decommissioned in the fourth quarter of 2020, there are still some associated storage costs. Also included in this account are costs relating to additional bays of the facility that have not commenced construction.

DEPRECIATION AND AMORTIZATION EXPENSE

In the year ended December 31, 2021, the total depreciation and amortization expense was $1,881,000 which was slightly higher but consistent with the expense of $1,841,000 in the comparative year in 2020. The expense was allocated as follows: $339,000 to general and administration expense (2020 – $352,000), $186,000 to inventory (2020 – $126,000), and $1,356,000 (2020 – $1,363,000) 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 sales and marketing costs. General and administrative expenses in Juvente between the current and comparative quarter is approximately $28,000 higher, and this difference is primarily due to higher salary expense as Juvente received wage subsidies of $26,292 in Q4 of 2020 compared to a negative credit adjustment to the wage subsidy or $1,646 in Q4 2021. For the year ended December 31, 2021, general and administrative expenses in Juvente were approximately $11,000 lower than the prior year and this is also primarily due to an overall lower wage subsidy in 2021, totaling $8,635, compared to the prior year.

Sales and marketing expense is approximately $9,000 lower than the comparative quarter and approximately $65,000 lower than the comparative year as 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.

	2021				2020			
$000s EXCEPT PER SHARE DATA	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total revenues	**3,562**	**4,523**	**4,408**	**4,702**	2,706	3,476	4,666	4,273
Net income (loss)	**776**	**875**	**676**	**515**	(539)	192	1,077	1,126
Basic net income (loss) per common share	**0.01**	**0.011**	**0.009**	**0.007**	(0.007)	0.002	0.014	0.015
Diluted net income (loss) per common share	**0.01**	**0.011**	**0.009**	**0.007**	(0.007)	0.002	0.014	0.014

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.

SIGNIFICANT NEW ACCOUNTING STANDARDS

There were no new standards that became effective for periods beginning on or after January 1, 2021 that have a material impact on the Company's audited consolidated financial statements for the year ending December 31, 2021.

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, 2021**	December 31, 2020
Non-current assets	**18,801**	20,174
Current assets	**11,727**	9,050
Current liabilities	**(972)**	(1,391)
Total assets less current liabilities	**29,556**	27,833
Non-current liabilities	**2,359**	3,523
Shareholders' equity	**27,197**	24,310
Total capital employed	**29,556**	27,833

Non-current assets decreased by $1,373,000, this was partially due to a depreciation provision of $1,878,000, an amortization provision on licences of $3,000, and the utilization of deposits of $2,000, offset by the acquisition of $786,000 of property and equipment. The decrease was also due to the offsetting of liabilities against deferred tax assets, the recognition of deferred tax assets, and the use of deferred tax assets against the current year provision netting $435,000, which was partially offset by the net recognition of investment tax credits of $159,000.

Current assets increased by $2,677,000 primarily due to an increase in cash from operations of $2,412,000, an increase in trade and other receivables in the amount of $17,000, and an increase in inventories of $435,000 offset by a decrease in prepaid expenses and deposits of $186,000.

Current liabilities totaling $972,000 decreased by the net amount of $419,000 primarily due to a decrease in accounts payable and accrued liabilities of $385,000, a decrease due to the full repayment of the CAAP loan net of accretion of $72,000 offset by an increase in the current portion of lease liabilities of $39,000.

Non-current liabilities totaling $2,359,000 decreased by the net amount of $1,164,000 partially due to the repayment of lease liabilities and reallocation of current portion of the lease liabilities of $290,000 and partially due to the offsetting of the deferred tax liability against the deferred tax asset in the amount of $874,000.

Equity of $27,197,000 at December 31, 2021 increased by $2,887,000 from equity of $24,310,000 at December 31, 2020, primarily due to the recognition of net income of $2,842,000 for the year ended December 31, 2021, the recognition of share-based payment compensation of $18,000, and due to the issuance of shares from the exercise of stock options of $27,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the years ended December 31, 2021 and 2020.

	Year Ended December 31,		Quarter Ended December 31,	
$000s	**2021**	2020	**2021**	2020
Sources of funds:				
Funds generated from operations adjusted for non-cash items	**4,449**	4,010	**692**	–
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	**–**	135	**46**	120
Changes in non-cash working capital items relating to operating activities	**–**	596	**16**	–
Proceeds from disposal of equipment	**5**	–	**–**	–
Share issuance	**27**	5	**–**	2
	4,481	4,746	**754**	122
Uses of funds:				
Funds used in operations adjusted for non-cash items	**–**	–	**–**	(24)
Purchase of property and equipment	**(689)**	(528)	**(194)**	(306)
Purchase of leasehold improvements	**(20)**	(13)	**(1)**	(13)
Deposits relating to investing activities	**–**	(77)	**–**	(77)
Changes in non-cash working capital items relating to operating activities	**(798)**	–	**–**	(263)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	**(87)**	–	**–**	–
Interest paid	**(140)**	(154)	**(33)**	(37)
Repayment of long-term debt and CAAP loan	**(84)**	(197)	**(84)**	(84)
Repayment of lease liabilities	**(251)**	(265)	**(71)**	(67)
	(2,069)	(1,234)	**(383)**	(871)
Net change in cash flows	**2,412**	3,512	**371**	(749)

Net change in cash flow was an increase of $2,412,000 during the year ended December 31, 2021 in comparison with an increase of $3,512,000 for the comparative year. Cash generated from operations of $3,651,000 (after adjustment for non-cash items and working capital items) in the current year was lower than the comparative year where cash generated from operations was $4,607,000, and this was primarily due to a significant increase in investment in research and development of $1,897,000 compared to the prior year. Another reason for the difference relates to an increase in the purchase of property and equipment in the current year over the prior year primarily relating to investment into equipment to scale up the Company's PGX technology and to invest in capital improvements in production. These decreases were slightly offset by an increase in share issuance proceeds of approximately $22,000 over the comparative year, slightly lower lease liability repayments, and no long-term debt repayment in the current year as the loan was fully repaid in the prior year.

The Company has a positive working capital balance (defined as current assets less current liabilities) of $10,755,381 at December 31, 2021. 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 12, 2022, were 77,686,843 (April 20, 2021 – 77,672,843). In addition, 3,139,333 stock options as at April 12, 2022 (April 20, 2021 – 2,991,999 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. This funding has been fully repaid at December 31, 2021.

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 was 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. During the year ended December 31, 2021, the Company received $68,522 which has been recorded as a reduction of research and development expenses. The project has been completed as at December 31, 2021.

c) During the year ended December 31, 2021, the Company entered into a new 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 $480,000 for costs incurred on the design of a pharmaceutical PGX processing unit, impregnation unit, and spray chamber unit for the Company's PGX technology with the aim to boost the innovation capacity of the technology towards pharmaceutical applications. During the year ended December 31, 2021, the Company received or recorded as a receivable $57,651 which was recorded as a reduction of research and development expenses. The Company anticipates receiving an additional $422,349 over the period January 1, 2022 to March 31, 2023.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2021, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $1,115,000 (2020 – $1,014,000) and share-based payments expense for key management personnel was $8,000 (2020 – $88,000).

The amount payable to directors at December 31, 2021 was $39,000 (2020 – $40,000). Consulting fees and key management salaries to officers and key management included in accounts payable at December 31, 2021 was $10,000 (2020 – $22,000).

During the year ended December 31, 2021, the Company entered into a research collaboration with the Angiogenesis Foundation for in-vivo studies on the Company's products and paid $251,759 in research and development expenditures to the Foundation. A director of the Company is the CEO of the Foundation.

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

COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

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

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

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

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

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

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

OUTLOOK

While the Company's business has not been significantly impacted by the COVID-19 pandemic, management remains very vigilant in ensuring the highest level of safety for Ceapro's employees. Depending on the evolution of this pandemic

situation and assuming minimal supply chain disruptions, management believes the prospects for the Company remain very strong for the upcoming year. Ceapro's cosmeceuticals base business should continue to grow and provide positive cash flows to support the expansion to a new business model from a contract manufacturer/commodity company to a high value life science/biopharmaceutical company involved in nutraceuticals and pharmaceuticals. We then expect to further invest into R&D to initiate an early clinical trial with our newly developed pill of avenanthramide, to continue the development of new chemical complexes as potential delivery systems for bioactives, and to emphasize our current efforts for the development and assessment of yeast beta glucan as an immune booster and as potential inhalable therapeutics for lung fibrotic diseases including COVID 19 conditions.

Results from bioavailability studies with new chemical complexes and results with yeast beta glucan as an immune booster will drive decisions for capital expenditures that would be incurred for the building of a commercial scale unit for PGX Technology.

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 12, 2022

Grant Thornton

Independent Auditor's Report

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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, 2021, and December 31, 2020 and the consolidated statements of net income and comprehensive income, 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, 2021 and December 31, 2020, 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.

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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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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 Mark Iwanaka.

Grant Thornton LLP

Vancouver, Canada
April 12, 2022

Chartered Professional Accountants

CONSOLIDATED BALANCE SHEETS

	December 31, 2021 $	December 31, 2020 $
ASSETS		
Current Assets		
Cash and cash equivalents	**7,780,989**	5,369,029
Trade receivables	**2,092,842**	2,019,723
Other receivables	**45,850**	102,224
Inventories (note 3)	**1,644,893**	1,210,079
Prepaid expenses and deposits	**162,919**	348,845
Total Current Assets	**11,727,493**	9,049,900
Non-Current Assets		
Investment tax credits receivable	**766,629**	607,700
Deposits	**79,539**	82,124
Licences (note 4)	**15,551**	18,514
Property and equipment (note 5)	**17,499,774**	18,591,189
Deferred tax assets (note 13(b))	**439,063**	874,304
Total Non-Current Assets	**18,800,556**	20,173,831
TOTAL ASSETS	**30,528,049**	29,223,731
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**682,057**	1,067,622
Current portion of lease liabilities (note 6)	**290,055**	250,658
Current portion of CAAP loan (note 8)	**–**	72,263
Total Current Liabilities	**972,112**	1,390,543
Non-Current Liabilities		
Long-term lease liabilities (note 6)	**2,358,862**	2,648,917
Deferred tax liabilities (note 13(b))	**–**	874,304
Total Non-Current Liabilities	**2,358,862**	3,523,221
TOTAL LIABILITIES	**3,330,974**	4,913,764
Equity		
Share capital (note 7(b))	**16,557,401**	16,511,067
Contributed surplus (note 7(e))	**4,680,690**	4,682,393
Retained earnings	**5,958,984**	3,116,507
Total Equity	**27,197,075**	24,309,967
TOTAL LIABILITIES AND EQUITY	**30,528,049**	29,223,731

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

Years Ended December 31,	**2021 $**	2020 $
Revenue (note 15)	**17,195,329**	15,121,282
Cost of goods sold	**7,506,036**	7,498,996
Gross margin	**9,689,293**	7,622,286
Research and product development	**3,779,102**	1,881,883
General and administration	**3,239,672**	3,282,754
Sales and marketing	**47,119**	111,044
Finance costs (note 11)	**206,891**	231,271
Income from operations	**2,416,509**	2,115,334
Other income (expense) (note 10)	**202,281**	(259,234)
Income before tax	**2,618,790**	1,856,100
Income taxes		
Current tax expense (note 13(a))	**215,376**	–
Deferred tax benefit (note 13(a))	**(439,063)**	–
Income tax benefit	**(223,687)**	–
Total net income and comprehensive income for the year	**2,842,477**	1,856,100
Net income per common share (note 20):		
Basic	**0.04**	0.02
Diluted	**0.04**	0.02
Weighted average number of common shares outstanding (note 20):		
Basic	**77,673,804**	77,594,629
Diluted	**78,590,706**	78,143,033

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital $	Contributed surplus $	Retained earnings $	Total equity $
Balance December 31, 2020	16,511,067	4,682,393	3,116,507	24,309,967
Share-based payments (note 7(c) & (d))	–	17,906	–	17,906
Share options exercised	46,334	(19,609)	–	26,725
Total net income and comprehensive income for the year	–	–	2,842,477	2,842,477
Balance December 31, 2021	16,557,401	4,680,690	5,958,984	27,197,075
Balance December 31, 2019	16,401,677	4,650,090	1,260,407	22,312,174
Share-based payments (note 7(c) & (d))	–	136,796	–	136,796
Share options exercised	7,978	(3,081)	–	4,897
Restricted share units vested (note 7(d))	101,412	(101,412)	–	–
Total net income and comprehensive 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

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2021 $	2020 $
OPERATING ACTIVITIES		
Net income for the year	2,842,477	1,856,100
Adjustments for items not involving cash		
Finance costs	140,270	153,538
Transaction costs	–	1,108
Depreciation and amortization	1,880,748	1,841,033
Gain on disposal of equipment	(5,000)	–
Accretion	11,621	21,625
Income tax benefit	(439,063)	–
Share-based payments	17,906	136,796
	4,448,959	4,010,200
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(73,119)	1,639,818
Other receivables	56,374	(55,412)
Investment tax credits receivable	(158,929)	–
Inventories	(434,814)	(541,074)
Prepaid expenses and deposits	111,044	(88,839)
Accounts payable and accrued liabilities relating to operating activities	(298,765)	(358,136)
	(798,209)	596,357
Net income for the year adjusted for non-cash and working capital items	3,650,750	4,606,557
Interest paid	(140,270)	(153,538)
CASH GENERATED FROM OPERATIONS	3,510,480	4,453,019
INVESTING ACTIVITIES		
Purchase of property and equipment	(689,431)	(528,707)
Purchase of leasehold improvements	(19,472)	(12,870)
Proceeds from sale of equipment	5,000	353
Deposits relating to the purchase of equipment	–	(77,467)
Accounts payable and accrued liabilities relating to investing activities	(86,800)	134,554
CASH USED IN INVESTING ACTIVITIES	(790,703)	(484,137)
FINANCING ACTIVITIES		
Stock options exercised	26,725	4,897
Repayment of long-term debt	–	(112,973)
Repayment of CAAP loan	(83,884)	(83,884)
Repayment of lease liabilities	(250,658)	(265,088)
CASH USED IN FINANCING ACTIVITIES	(307,817)	(457,048)
Increase in cash and cash equivalents	2,411,960	3,511,834
Cash and cash equivalents at beginning of the year	5,369,029	1,857,195
Cash and cash equivalents at end of the year	7,780,989	5,369,029

See accompanying notes

Cash and cash equivalents are comprised of $7,780,989 (2020 – $5,362,191) on deposit with financial institutions and $NIL (2020 – $6,838) held in money market mutual funds.

:: Notes to Consolidated Financial Statements December 31, 2021 and 2020

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 12, 2022.

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. Effective December 31, 2021, the Company wound up Ceapro Technology Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc. into the Company and dissolved Ceapro USA Inc.

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

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

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

Management critical judgements

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional currency

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

Management estimates and assumptions

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

Taxation

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

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

Investment tax credits

The recognition of investment tax credits relating to the Company's qualifying scientific research and experimental development expenditures requires management to estimate the amount and timing of recovery. The Company has assessed that it is probable that sufficient taxable income will be available to recognize the investment tax credits as recognized at December 31, 2021.

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.

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 7.

Leases

For the measurement of leases. management considers all factors relating to the assessment of whether or not a contract includes a lease, estimating a lease term including all factors relating to determining whether it is reasonably certain or not that an extension option will be exercised, and determining the appropriate rate to discount lease payments.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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; and

(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.

I) 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.

J) 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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

K) 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.

L) 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.

M) 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.

N) 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.

O) 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 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. When the Company is in a net loss position, the conversion of convertible securities is considered to be anti-dilutive.

P) 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.

Q) 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.

R) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The Company does not hold any financial assets at FVOCI.

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. The Company does not hold any financial assets at FVPL.

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 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.

S) 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 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, 2021, the Company has assessed the possible impacts of COVID-19 on its financial results and no changes to estimates or carrying amounts are required.

T) 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 year:

	December 31, 2021 $	December 31, 2020 $
Raw materials	**549,022**	540,425
Work in progress	**717,273**	148,162
Finished goods	**378,598**	521,492
	1,644,893	1,210,079

Inventories expensed to cost of goods sold during the year ended December 31, 2021 are $7,451,083 (December 31, 2020 – $7,386,194).

During the year ended December 31, 2021. the Company decreased the carrying value of inventory by $10,993 (2020 – $78,400) 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 14 (b)).

4. LICENCES (CONTINUED)

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, 2021 (December 31, 2020 – $2,963) (see note 14 (a)).

Cost of licences	$
Balance – December 31, 2019	44,439
Additions	–
Balance – December 31, 2020	44,439
Additions	–
Balance – December 31, 2021	44,439

Accumulated amortization	
Balance – December 31, 2019	22,962
Amortization	2,963
Balance – December 31, 2020	25,925
Amortization	2,963
Balance – December 31, 2021	28,888

Net book value	
Balance – December 31, 2021	15,551
Balance – December 31, 2020	18,514

5. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Buildings $	Leasehold Improvements $	Total $
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
Additions	459,601	293,141	2,753	11,403	–	19,472	786,370
Disposals	–	(13,100)	–	–	–	–	(13,100)
December 31, 2021	1,978,427	12,279,149	321,972	494,968	3,430,656	8,724,449	27,229,621
Accumulated Depreciation							
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
Additions	–	856,683	13,693	18,112	333,165	656,132	1,877,785
Disposals	–	(13,100)	–	–	–	–	(13,100)
December 31, 2021	–	5,710,904	265,227	446,850	1,009,258	2,297,608	9,729,847
Carrying Amount							
December 31, 2021	1,978,427	6,568,245	56,745	48,118	2,421,398	6,426,841	17,499,774
December 31, 2020	1,518,826	7,131,787	67,685	54,827	2,754,563	7,063,501	18,591,189

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Year Ended December 31, 2021	1,356,504	185,532	335,749	1,877,785
Year Ended December 31, 2020	1,362,689	125,929	349,452	1,838,070

Included in the net carrying amount of property and equipment at December 31, 2021, are right-of-use assets relating to buildings, in the amount of $2,421,398 (December 31, 2020 – $2,754,563).

Included in the carrying amount of leasehold improvements is $1,040,234 (December 31, 2020 – $1,040,234) and included in the carrying amount of equipment not available for use is $1,978,427 (December 31, 2020 – $1,518,826) which represent the accumulated expenditures incurred on the purchase of an ethanol recovery system, equipment purchased for technology scale-up, other equipment, and the engineering design for the related construction and installation of the ethanol recovery system. At December 31, 2021, 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. The advance payment of $77,467 CAD included in prepaid expenses and deposits at December 31, 2020 was transferred into property and equipment during the year ended December 31, 2021. The purchase was completed in the third quarter of 2021.

6. 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,	**2021 $**	2020 $
Balance at beginning of year	**2,899,575**	3,040,750
Additions	**–**	123,913
Interest expense	**141,298**	153,063
Lease payments	**(391,956)**	(418,151)
Balance at end of year	**2,648,917**	2,899,575
Less current portion	**290,055**	250,658
	2,358,862	2,648,917

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 resulted in a $123,913 addition to the lease liability and a corresponding increase to the right of use asset for buildings.

Future minimum lease payments at December 31, 2021 are as follows:

	Within one year $	One to five years $	More than five years $	Total $
Lease payments	418,151	1,628,847	1,184,856	3,231,854
Finance charges	128,096	357,266	97,575	582,937
Net present values	290,055	1,271,581	1,087,281	2,648,917

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

	2021 $	2020 $
Short-term leases	**30,351**	157,827

At December 31, 2021, the Company was committed to short term leases and the total commitment at that date was $22,915.

7. 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, 2021		Year Ended December 31, 2020	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of the year	**77,621,341**	**16,511,067**	77,335,841	16,401,677
Stock options exercised	**64,502**	**46,334**	13,000	7,978
Restricted share units vested	**–**	**–**	272,500	101,412
Balance at end of the year	**77,685,843**	**16,557,401**	77,621,341	16,511,067

In January 2020, the Company issued 272,500 common shares on the vesting and conversion of restricted share units (see note 7 (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 uses the Black-Scholes option pricing model to price its options.

In the year ended December 31, 2021, the Company granted 30,000 (December 31, 2020 – 395,000) 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 2021 was .92% (2020 – 1.62%), the weighted average expected volatility was 66% (2020 – 72%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years (2020 – 5 years), the forfeiture rate was 0% (2020 – 0%), the weighted average share price was $0.64 (2020 – $0.36), the weighted average exercise price was $0.64 (2020 – $0.36), and the expected dividends were nil (2020 – nil). The weighted average grant date fair value of options granted in the year ended December 31, 2021 was $0.35 (2020 – $0.21) per option.

The share-based payments expense recorded during the current year relating to options granted in 2021, 2020, and 2019 was $17,906 (during 2020 relating to options granted in 2020, 2019, and 2018 – $86,250).

A summary of the status of the Company's stock options at December 31, 2021 and December 31, 2020 and changes during the years ended on those dates is as follows:

	Year Ended December 31, 2021		Year Ended December 31, 2020	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of year	**3,048,501**	**0.55**	2,801,168	0.62
Granted	**30,000**	**0.64**	395,000	0.36
Exercised	**(64,502)**	**0.41**	(13,000)	0.38
Expired	**–**	**–**	(60,000)	0.33
Forfeited	**(23,666)**	**0.37**	(74,667)	0.55
Outstanding at end of year	**2,990,333**	**0.56**	3,048,501	0.55
Exercisable at end of year	**2,848,673**	**0.58**	2,663,668	0.61

7. SHARE CAPITAL (CONTINUED)

Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Contractual Life Remaining (years)	**Number of Options Outstanding**	Number of Options Exercisable
0.35	0.64	2026	4.7	**30,000**	10,000
0.21	0.36	2025	3.0	**338,667**	217,007
0.25	0.39	2024	2.0	**344,666**	344,666
0.47	0.50	2028	6.0	**195,000**	195,000
0.56	0.59	2027	5.8	**90,000**	90,000
1.22	1.30	2027	5.3	**10,000**	10,000
1.65	1.75	2027	5.0	**400,000**	400,000
0.34	0.36	2025	3.3	**150,000**	150,000
0.47	0.50	2025	3.1	**100,000**	100,000
0.60	0.64	2025	3.0	**712,000**	712,000
0.37	0.27	2024	2.9	**150,000**	150,000
0.08	0.10	2024	2.0	**300,000**	300,000
0.05	0.10	2023	1.0	**170,000**	170,000
				2,990,333	2,848,673
Weighted Average Contractual Life Remaining				**3.3**	3.3

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.

The Company did not grant RSU's during the year ended December 31, 2021.

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 period. 132,500 RSU's from a 2019 grant with a fair market value of $0.385 for each RSU, also vested and were converted to common shares during the year ended December 31, 2020.

The share-based payments expense recorded during the year ended December 31, 2021, relating to the granting of RSU's was $nil (2020 – $50,546).

A summary of the status of the Company's RSU's at December 31, 2021 and December 31, 2020 and changes during the years ended on those dates is as follows:

	Year Ended December 31, 2021 Number of RSU's	Year Ended December 31, 2020 Number of RSU's
Balance at beginning of year	**–**	132,500
Granted	**–**	140,000
Forfeited	**–**	–
Vested	**–**	(272,500)
Balance at end of year	**–**	–

Of the 1,000,000 RSU's authorized for grant under the RSU plan, at December 31, 2021, 370,000 RSU's are available for grant (December 31, 2020 – 370,000).

E. CONTRIBUTED SURPLUS

	Year Ended December 31, 2021 $	Year Ended December 31, 2020 $
Balance at beginning of the year	**4,682,393**	4,650,090
Share-based payments (note 7(c) & (d))	**17,906**	136,796
Restricted share units vested (note 7(d))	**–**	(101,412)
Stock options exercised	**(19,609)**	(3,081)
Balance at end of the year	**4,680,690**	4,682,393

8. 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.

8. CAAP LOAN (CONTINUED)

The balance of repayable contribution is derived as follows:

Year Ended December 31,	**2021 $**	2020 $
Opening balance	**72,263**	134,522
Repayment	**(83,884)**	(83,884)
Accretion of CAAP loan	**11,621**	21,625
	–	72,263
Less current portion	**–**	72,263
	–	–

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

9. RELATED PARTY TRANSACTIONS

Related party transactions during the years are as follows:

Year Ended December 31,	**2021 $**	2020 $
Key management salaries, short-term benefits, consulting fees, and director fees	**1,115,171**	1,013,691
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	**10,000**	21,500
Key management personnel share-based payments	**8,190**	88,119
Amount payable to directors	**39,382**	40,354

During the year ended December 31, 2021, the Company entered into a research collaboration with the Angiogenesis Foundation for in-vivo studies on the Company's products and paid $251,759 in research and development expenditures to the Foundation. A director of the Company is the CEO of the Foundation.

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.

10. OTHER (INCOME) EXPENSE

Year Ended December 31,	**2021**	2020
Foreign exchange loss	**75,843**	165,520
Other expense (income)	**(678)**	3,836
Gain on disposal of equipment	**(5,000)**	–
Plant relocation costs	**101,859**	89,878
Recognition of investment tax credits	**(374,305)**	–
	(202,281)	259,234

The Company has recorded an investment tax credits receivable of $374,305 related to its qualifying expenditures for scientific research and experimental development costs which have been earned in periods prior to 2021 but not previously recognized. The Company has determined that there is reasonable assurance, based on estimated future

taxable income, that these credits will be realized. In the year the investment tax credits are generated, if recognized, they will offset the related expenditures; however, in the current year as the investment tax credits related to prior years expenditures, they have been recognized in other (income) expense.

11. FINANCE COSTS

Year Ended December 31,	**2021 $**	2020 $
Interest on lease liabilities	**140,270**	152,015
Royalties	**55,000**	55,000
Accretion of CAAP loan	**11,621**	21,625
Interest on long-term debt	**–**	1,523
Transaction costs	**–**	1,108
	206,891	231,271

12. EMPLOYEE BENEFITS EXPENSE

Year Ended December 31,	**2021 $**	2020 $
Employee benefits	**3,945,945**	4,142,673

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.

In the year ended December 31, 2021, employee benefits expense has been allocated as follows: $1,476,000 to general and administration expense (2020 – $1,515,000), $1,295,000 to cost of goods sold (2020 – $1,462,000), $1,175,000 to research and development expense (2020 – $1,165,000), and $nil to marketing expense (2020 – $1,000).

13. INCOME TAXES

(A) INCOME TAX EXPENSE (BENEFIT)

Components of income tax expense are:

	December 31, 2021 $	December 31, 2020 $
Current tax expense	**215,376**	–
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	**391,566**	478,648
Tax rate changes and tax rate differences	**230,592**	(144,932)
Change in unrecognized deductible temporary differences	**(1,021,144)**	(232,341)
Prior period adjustments	**(40,077)**	(101,375)
Income tax (benefit)	**(223,687)**	–

13. INCOME TAXES (CONTINUED)

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, 2021 $	December 31, 2020 $
Income before tax	**2,618,790**	1,856,100
Statutory income tax rate	**23.00%**	24.00%
Expected income tax expense	**602,322**	445,464
Increase (decrease) resulting from:		
Non taxable items	**4,620**	33,184
Change in unrecognized deductible temporary differences	**(1,021,144)**	(232,341)
Change in tax rates and rate differences	**230,592**	(144,932)
Prior period adjustments	**(40,077)**	(101,375)
Income tax benefit	**(223,687)**	–

(B) RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

	December 31, 2021 $	December 31, 2020 $
Deferred tax assets are attributable to the following:		
Patents	**161,657**	141,739
Intangibles	**47,366**	50,925
Other	**558**	1,043
SRED pool	**235,966**	–
Lease liability	**609,251**	666,902
Non-capital losses	**2,336,419**	1,958,027
Deferred tax assets	**3,391,217**	2,818,636
Offset by deferred tax liabilities	**(2,952,154)**	(1,944,332)
Net deferred tax asset	**439,063**	874,304
Deferred tax liabilities are attributable to the following:		
Property and equipment	**(2,775,829)**	(2,772,335)
CAAP loan and long-term debt	**–**	(2,673)
Inventory	**–**	–
SRED investment tax credits	**(176,325)**	(43,628)
Deferred tax liabilities	**(2,952,154)**	(2,818,636)
Offset by deferred tax assets	**2,952,154**	1,944,332
Net deferred tax liability	**–**	(874,304)

(C) UNRECOGNIZED DEFERRED TAX ASSETS

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

	December 31, 2021 $	December 31, 2020 $
Deductible temporary differences	**22,885**	184,396
Tax losses	**8,818,642**	11,818,631
	8,841,527	12,003,027

The non-capital loss carryforwards expire between 2027 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.

14. 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. The agreement expires after a term of 20 years or after the expiration of the last patent obtained, whichever event shall occur first.

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.

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

15. 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.

As of December 31, 2021, the cosmeceutical industry segment through Juvente no longer meets the quantitative thresholds to be identified as a reportable segment. Reporting of this segment will not be continued after December 31, 2021.

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,	**2021 $**	2020 $
United States	**11,389,652**	10,403,154
Germany	**4,001,952**	3,289,593
China	**1,671,026**	1,299,106
Other	**63,144**	65,346
Canada	**69,555**	64,083
	17,195,329	15,121,282

During the year ended December 31, 2021, the Company had export sales to one major distributor of the Company's products in the aggregate amount of $15,885,193 representing 92% of total revenue (2020 – $13,543,881 representing 90% 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, 2021:

	Active Ingredient Product Technology Industry $	Cosmeceutical Industry $	Total $
Revenue from external sales	17,155,256	40,073	17,195,329
Gross margin	9,672,462	16,831	9,689,293
Other income (expense)	202,281	–	202,281
Income before tax	2,849,788	(230,998)	2,618,790
Income tax benefit	223,687	–	223,687
Net income and comprehensive income	3,073,475	(230,998)	2,842,477
Depreciation and amortization	1,879,479	1,269	1,880,748
Share-based payments	17,906	–	17,906
Additions to property and equipment	786,370	–	786,370

At December 31, 2021:

	Active Ingredient Product Technology Industry $	Cosmeceutical Industry $	Total $
Property and equipment	17,495,418	4,356	17,499,774
Segment assets	30,357,104	170,945	30,528,049
Segment liabilities	3,309,143	21,831	3,330,974

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 expenses	(259,234)	–	(259,234)
Income before tax	2,224,256	(368,156)	1,856,100
Income tax benefit	–	–	–
Net income and comprehensive income	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

15. SEGMENTED INFORMATION (CONTINUED)

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

16. 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 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.

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 93% of trade receivables are due from one distributor at December 31, 2021 (December 31, 2020 – 90% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	December 31, 2021 $	December 31, 2020 $
Not yet due	**1,378,587**	407,993
Less than 30 days past due	**262,125**	1,419,731
Less than 60 days past due, more than 30 days past due	**413,842**	191,999
More than 60 days past due	**38,288**	–
Total	**2,092,842**	2,019,723

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, 2021 and December 31, 2020 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 $7,780,989 at December 31, 2021 (December 31, 2020 – $5,369,029) 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 is the contractual maturity of the Company's financial liabilities and obligations at December 31, 2021:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	682,057	–	–	–	682,057

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.

16. FINANCIAL INSTRUMENTS (CONTINUED)

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, 2021.

	Carrying Amount (USD)	FOREIGN EXCHANGE RISK (CDN)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	1,649,144	20,907	(20,907)
Financial liabilities			
Accounts payable and accrued liabilities	151,492	(1,921)	1,921
Total increase (decrease)		18,987	(18,987)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2021.

2. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The Company has minimal interest rate risk because it has no long-term debt.

17. 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, 2021.

18. 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. This funding has been fully repaid at December 31, 2021 (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. During the year ended December 31, 2021, the Company received $68,522 which has been recorded as a reduction of research and development expenses. The project has been completed as at December 31, 2021.

c) During the year ended December 31, 2021, the Company entered into a new 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 $480,000 for costs incurred on the design of a pharmaceutical PGX processing unit, impregnation unit, and spray chamber unit for the Company's PGX Technology with the aim to boost the innovation capacity of the technology towards pharmaceutical applications. During the year ended December 31, 2021, the Company received or recorded as a receivable $57,651 which has been recorded as a reduction of research and development expenses. The Company anticipates receiving an additional $422,349 over the period January 2022 to March 31, 2023.

19. 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, 2021	–	72,263	2,899,575	2,971,838
Cash changes				
Repayments	–	(83,884)	(250,658)	(334,542)
Non cash changes				
Accretion	–	11,621	–	11,621
Balance December 31, 2021	–	–	2,648,917	2,648,917

	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

20. INCOME PER COMMON SHARE

Year Ended December 31,	**2021**	2020
Net income for the year for basic and diluted earnings per share calculation	**$2,842,477**	$1,856,100
Weighted average number of common shares outstanding	**77,673,804**	77,594,629
Effect of dilutive stock options	**916,902**	548,404
Diluted weighted average number of common shares	**78,590,706**	78,143,033
Income per share – basic	**$0.04**	$0.02
Income per share – diluted	**$0.04**	$0.02

For the year ended December 31, 2021, 430,000 (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.

21. SUBSEQUENT EVENT

On March 10, 2022, the Company announced the signing of an exclusive long-term supply and distribution agreement with Symrise, a global supplier of fragrances, flavors, food nutrition, and cosmetic ingredients. Under the agreement, Symrise is guaranteed to purchase minimum annual volumes of the Company's products.

Investor Information – April 19, 2022

DIRECTORS

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

OFFICERS

Gilles Gagnon, M.Sc., MBA, ICD.D
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:

June 1, 2022 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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