



TSX-V: CZO



Q3 2017

**Unaudited Condensed Consolidated Financial Statements
for the Third Quarter ended September 30, 2017**

Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the periods ended September 30, 2017 and 2016, the financial position as at September 30, 2017, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at November 14, 2017. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at September 30, 2017, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2016, 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, 2016. All comparative percentages are between the periods ended September 30, 2017 and 2016 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 November 14, 2017, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

Vision, Core Business, and Strategy

Ceapro is incorporated under the Canada Business Corporations Act; and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc., are incorporated under the Alberta Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Acquired on October 25, 2017, Juvente^{DC} Inc., is a wholly-owned subsidiary incorporated under the Canada Business Corporations Act.

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

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, through agreements with Daisen Sangyo Co. Ltd.

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 Expansion drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds;
- The development of a new oat variety and certain technologies to increase the content of avenanthramides to high levels to enable new innovative products to be introduced to new markets including medicinal foods, nutraceuticals, and botanical drugs; and
- *CeaProve*[®], a diabetes test meal to screen pre-diabetes and to confirm diabetes diagnosis.

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 95% of trade receivables are due from one distributor at September 30, 2017 (December 31, 2016 – 86% from two distributors) and all trade receivables at September 30, 2017 and December 31, 2016 are current. These main distributors are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$7,435,743 at September 30, 2017 (December 31, 2016 - \$9,150,035) 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 past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's trade and other receivables and cash and cash equivalents. The Company does not hold any collateral as security.

b) Liquidity risk

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

The following are the contractual maturities of the Company's financial liabilities and obligations:

	within 1 year	1 to 3 years	3 to 5 years	over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	785,318	-	-	-	785,318
Long-term debt	943,913	673,662	-	-	1,617,575
CAAP loan	83,884	167,767	167,767	-	419,418
Total	1,813,115	841,429	167,767	-	2,822,311

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) and the Euro on the financial assets and liabilities of the Company.

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	1,014,437	10,144	(10,144)
Financial liabilities			
Accounts payable and accrued liabilities	260,289	(2,603)	2,603
Total increase (decrease)		7,541	(7,541)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial liabilities			
Long-term debt	280,733	(2,807)	2,807
Total (decrease) increase		(2,807)	2,807

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at September 30, 2017.

2. Interest rate risk

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

d) Share price risk

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

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

e) People and process risk

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

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

f) Loss of key personnel

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

g) Interruption of raw material supply

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

h) Environmental issues

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

i) Regulatory compliance

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

Future accounting policies not yet adopted

At the date of authorization of the Company's consolidated financial statements, certain new standards and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Company. Information on those expected to be relevant to the Company's consolidated financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments either not adopted or listed below are not expected to have a material impact on the Company's consolidated financial statements.

IFRS 9 "Financial instruments"

In July 2014, the IASB released the final version of IFRS 9 "Financial instruments", representing the completion of its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

IFRS 9 is effective for reporting periods beginning on or after January 1, 2018. The Company's management does not expect any material impact from the adoption of IFRS 9 on the consolidated financial statements.

IFRS 15 “Revenue from Contracts with Customers”

In May 2014, the IASB released IFRS 15 “Revenue from Contracts with Customers” which presents new requirements for the recognition of revenue, replacing IAS 18 “Revenue”, IAS 11 “Construction contracts”, and several revenue related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The Company’s management is currently assessing the impact of IFRS 15 on these consolidated financial statements. The extent of the impact has not yet been determined.

IFRS 16 “Leases”

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

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Company’s management has not yet assessed the impact of IFRS 16 on these consolidated financial statements.

Results of Operations Periods Ended September 30, 2017 and 2016

CONSOLIDATED INCOME STATEMENT

<i>\$000s except per share data</i>	Quarters				Nine Months			
	Ended September 30,		2016		Ended September 30,		2016	
	2017	%	2016	%	2017	%	2016	%
Total revenues	3,600	100%	3,018	100%	9,957	100%	11,249	100%
Cost of goods sold	1,727	48%	1,124	37%	4,355	44%	3,508	31%
Gross margin	1,873	52%	1,894	63%	5,602	56%	7,741	69%
Research and product development	435	12%	265	9%	1,332	13%	531	5%
General and administration	587	16%	528	17%	2,113	21%	1,548	14%
Sales and marketing	1	0%	1	0%	10	0%	4	0%
Finance costs	21	1%	49	2%	121	1%	196	2%
Income from operations	829	23%	1,051	35%	2,026	20%	5,462	49%
Other operating (loss) income	(225)	-6%	(157)	-5%	(653)	-7%	(477)	-4%
Income before tax	604	17%	894	30%	1,373	14%	4,985	44%
Income tax expense	(308)	-9%	(249)	-8%	(689)	-7%	(1,491)	-13%
Net income	296	8%	645	21%	684	7%	3,494	31%
Basic net income per common share	0.004		0.009		0.009		0.053	
Diluted net income per common share	0.004		0.008		0.009		0.050	

The following sections discuss the results from operations.

Revenue

\$000s	Quarters Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Total revenues	3,600	3,018	19%	9,957	11,249	-11%

Revenue for the third quarter ended September 30, 2017, amounted to \$3,600,000 compared to \$3,018,000 for the third quarter ended September 30, 2016, which representing an increase of 19% or \$582,000. The increase was primarily related to an overall increase in product sales volumes of 18%, mostly due to increased sales volumes of avenanthramides. The increase in revenue from an increase in sales volumes were partially offset by a lower U.S dollar relative to the Canadian dollar compared to the comparative quarter which negatively impacted revenue by approximately \$203,000.

Revenue of \$9,957,000 for the first nine months of 2017 was 11% lower than the comparative period. This is due to lower product sales volume caused primarily from lower sales of beta glucan. For the first nine months of 2017 revenue was also impacted by a lower U.S dollar relative to the Canadian dollar compared to the comparative period which negatively impacted revenue by approximately \$301,000.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

\$000s	Quarters Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Sales	3,600	3,018	19%	9,957	11,249	-11%
Cost of goods sold	1,727	1,124	54%	4,355	3,508	24%
Gross margin	1,873	1,894	-1%	5,602	7,741	-28%
Gross margin %	52%	63%		56%	69%	

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

During the third quarter of fiscal 2017, cost of goods sold increased by \$603,000 or 54% compared to the comparative quarter. The increase is partly the result of an increase in sales of 19%, however the percentage increase in the cost of sales was higher overall resulting in a lower gross margin percentage of 52% compared to 63% in the comparative quarter. The decrease in the gross margin percentage was a result of a number of factors including higher production salaries due to the hiring of additional operators and staff to support the operation of both the existing and the new production facility during the commissioning and validation period and to facilitate training of all operators, higher utilities and maintenance costs, and an increase in the cost of materials primarily due to the significant increase in the cost of feedstock. The decrease in the gross margin percentage is also attributable to higher processing required with the current inventory of feedstock, requiring both additional time for extraction and additional materials. Feedstock is a natural product and will vary from growing period to growing period, the Company mitigates this variability by continuously analyzing thousands of grain samples each year and only acquiring feedstock with the properties most suitable for our extraction process.

The first nine months of fiscal 2017 reflects a decrease in revenue of 11%, while the cost of goods sold increased by 24% or \$847,000, resulting in a 28% decrease in gross margin or a decrease of \$2,139,000. The gross margin percentage decreased from 69% for the first nine months of 2016 to 56% for the first nine months of 2017 due to the same factors that impacted the third quarter of 2017. The current nine month period was also impacted by an increase in overhead expenses due to higher overhead expenses allocated over lower inventory produced the nine month period. The lower inventory produced is a combination of time required to be allocated to commissioning and validation activities despite the hiring of additional operators and due to higher processing required with the current inventory of feedstock.

RESEARCH AND PRODUCT DEVELOPMENT

\$000s	Quarters Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Salaries and benefits	180	124		495	345	
Regulatory and patents	29	7		147	107	
Other	226	134		690	79	
Total research and product development expenditures	435	265	64%	1,332	531	151%

During the third quarter ended September 30, 2017, research and development expenses increased by 64% or \$170,000 in comparison with the same period in 2016. The increase in expenditures for the quarter primarily related to additional expenditures on a research program to study the bio activity of new formulations of the Company's value driver active ingredients.

During the nine month period ended September 30, 2017, research and development expenses increased by 151% or \$801,000. The increase is primarily due to increased investment on the development of the Company's protocol and related mandatory regulatory activities for a pilot clinical study for the development of beta glucan as a cholesterol reducer, an increase in expenditures on the Company's Pressurized Gas Expanded ("PGX") Technology project, and to the commencement of a research program to study the bio activity of new formulations of the Company's value driver active ingredients. The increase is also partially related to the Company's annual SRED claim which was filed later in the year and has not yet been recognized in the current period. In the prior period it was recognized in the second quarter.

Research and development expenditures also increased for both the third quarter and the nine month period from an increase in salaries and benefits due to additional research and development staff hired throughout 2016. While the Company continued to receive grant funding for some key staff who are working primarily on the Company's PGX Technology project, the funding in 2017 was lower than the comparative period, which also raised the salaries and benefits expense.

Regulatory and patents expense will vary from period to period based on the timing of filings and maintenance payments. The expense is higher for the quarter and nine month periods ended September 30, 2017 due to patent maintenance on increased patent applications for its enabling technologies.

GENERAL AND ADMINISTRATION

\$000s	Quarters Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Salaries and benefits	205	94		768	291	
Consulting	120	63		360	194	
Board of directors compensation	39	52		122	160	
Insurance	23	34		95	95	
Accounting and audit fees	16	11		80	71	
Rent	22	22		66	66	
Public company costs	43	107		252	251	
Travel	25	52		77	123	
Depreciation	31	42		98	120	
Legal	2	2		19	33	
Other	61	49		176	144	
Total general and administration expenses	587	528	11%	2,113	1,548	36%

General and administration expense for the quarter ended September 30, 2017 increased by \$59,000 or 11% from the prior year (the overall increase for the nine months ended September 30, 2017 was \$565,000 or 36%). The increase was primarily due to an increase in salaries and benefits expense related to the granting of stock options in January which resulted in an increase in share-based payments of approximately \$73,000 (\$432,000 for the nine months ended September 30, 2017). While the share based payment accounting charge impacts net income it has no impact on cash flows. Also in January, the base compensation of the Chief Executive Officer was reviewed for the first time in over four years to better realign the compensation to market. This resulted in an overall increase to consulting fees of approximately \$57,000 (\$171,000 for the nine months ended September 30, 2017).

For both the quarter and nine month period ended September 30, 2017, the overall increase in general and administration expense was offset by lower Board of Director Compensation due to a decrease in share-based payment expense relating to directors.

For the quarter ended September 30, 2017, public company costs decreased by \$64,000 from the comparative quarter. In the comparative quarter there was an increase in communication material costs, website development costs and an increased emphasis on investor relations and financing activities. For the nine month period ended September 30, 2017 the public company costs are comparable to the comparative period because the lower communication costs in the current period are offset with significantly higher annual regulatory fees resulting primarily from the Company's higher market capitalization and due to significantly higher publication and postage fees relating to the annual report and information circular for an expanded shareholder base.

For both the quarter and nine month period ended September 30, 2017, the overall increase in general and administration expense was also offset by a decrease in travel expenses of \$27,000 for the quarter (\$46,000 for the nine month period) as attendance at conferences, meetings and corporate events was lower in 2017.

SALES AND MARKETING

\$000s	Quarters Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Courses, conferences & advertising	-	-		7	1	
Other	1	1		3	3	
Total sales and marketing	1	1	0%	10	4	150%

Marketing expenses are negligible due to the Company's strategy to sell mostly through a distribution network instead of selling directly to end-users. As part of a review of this strategy, the Company has recently acquired Juvente^{DC} to sell cosmeceutical products directly to high end value customers.

FINANCE COSTS

\$000s	Quarters Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Interest on long-term debt	5	10		20	32	
Transaction costs	5	6		14	19	
Royalties	-	-		55	50	
Accretion of CAAP loan	11	12		32	36	
Accretion of convertible	-	21		-	59	
	21	49	-57%	121	196	-38%

Finance costs decreased by 57% or \$28,000 in the third quarter ended September 30, 2017 from \$49,000 in 2016 to \$21,000. The decrease primarily relates to a \$21,000 accretion charge for convertible debentures in the comparative period for which there was no charge in the current period as the convertible debentures were all converted to equity during the year ended December 31, 2016. The decrease is also attributable to the Company's declining long-term debt balance, where a larger portion of the monthly payments are being allocated to principal repayment and less to interest.

Finance costs for the nine month period ended September 30, 2017 decreased by \$75,000, from \$196,000 in 2016 to \$121,000, primarily due to the same factors that have impacted the quarter.

OTHER OPERATING LOSS

\$000s	Quarters Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Foreign exchange loss	61	9		131	54	
Quality management system	1	-		82	-	
Other loss	3	4		4	6	
Plant relocation costs	161	144		437	417	
	226	157	44%	654	477	37%

During the third quarter ended September 30, 2017, other operating loss increased by \$69,000 or 44% from \$157,000 in 2016 to \$226,000.

The increase was primarily due to a \$52,000 increase in foreign exchange loss over the comparative quarter. The Company's foreign exchange losses and gains are primarily due to the translation of US dollar denominated accounts receivable, accounts payable, and deferred revenue 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. The foreign exchange gains and losses are also impacted by the translation of the Company's Euro denominated debt. During the third quarter ended September 30, 2017 the Euro debt translation resulted in a \$2,000 gain compared to a \$20,000 loss in the comparative period.

The overall increase in other operating loss was also impacted by an \$17,000 increase over the comparable quarter (nine month period increase of \$20,000) in plant relocation costs which 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.

During the nine month period ended September 30, 2017, other operating loss increased by \$177,000 or 37% from \$477,000 in 2016 to \$654,000. The increase was primarily related to expenditures on the improvement of the Company's quality management system and foreign exchange losses.

The Company commenced a project to implement an improved quality management system in the fourth quarter of fiscal 2016. The new system will be designed to focus policies towards consistently meeting or exceeding customer requirements and will also be aligned with the Company's strategic goal of transitioning to nutraceutical and pharmaceutical markets.

Included in the foreign exchange loss for the nine month period ending September 30, 2017, was a \$22,000 loss from the translation of the Euro debt compared to a Euro debt translation gain of \$19,000 which offset the overall foreign exchange loss in the comparative period.

DEPRECIATION AND AMORTIZATION EXPENSE

In the nine month period ended September 30, 2017, the total depreciation and amortization expense of \$262,000 (2016 - \$287,000) was allocated as follows: \$101,000 to general and administration expense (2016 - \$122,000), \$12,000 to inventory (2016 - \$41,000), and \$149,000 (2016 - \$124,000) to cost of goods sold. The expense is slightly lower than the prior year as the depreciable base of manufacturing equipment currently in use and assets used in the corporate head office is lower than the prior year.

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.

\$000s except per share data	2017			2016				2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues	3,600	3,174	3,183	2,425	3,018	4,168	4,064	3,435
Net income	296	370	18	126	645	1,636	1,213	3,452
Basic net income per common share	0.004	0.005	0.000	0.002	0.009	0.026	0.019	0.056
Diluted net income per common share	0.004	0.005	0.000	0.002	0.008	0.025	0.018	0.052

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.

The significant increase to net income in the fourth quarter of 2015 relates to the recognition of net deferred tax assets of \$1,147,000 and an investment tax credit receivable of \$603,000. Management assessed that it was probable that sufficient taxable income would be available in the foreseeable future to realize these assets.

Net income in the first quarter of 2017 includes a non-cash share-based payment accounting charge of \$307,000 primarily relating to the granting of stock options in January 2017. This accounting charge is considerably higher than in any of the comparable quarters presented as options granted during these periods were not as significant.

Liquidity and Capital Resources

CAPITAL EMPLOYED

\$000s	September 30, 2017	December 31, 2016
Non-current assets	16,521	14,998
Current assets	10,829	11,394
Current liabilities	(1,789)	(2,534)
Total assets less current liabilities	25,561	23,858
Non-current liabilities	1,497	1,457
Shareholders' equity	24,064	22,401
Total capital employed	25,561	23,858

Non-current assets increased by \$1,523,000 primarily due to the acquisition of \$1,850,000 of property and equipment net of grants offset by a depreciation provision of \$262,000 and the utilization of \$64,000 of deferred tax assets against taxable income for the period.

Current assets decreased by \$565,000. Cash decreased by \$1,714,000 primarily due to the acquisition of property and equipment and a decrease of \$66,000 in inventories which was offset by an increase in trade and other receivables of \$652,000 and an increase in prepaid expenses and deposits of \$564,000 primarily due to deposits made on a new ethanol recycling system.

Current liabilities totaling \$1,789,000 decreased by the net amount of \$745,000 primarily due to the recognition of \$468,000 of deferred revenue, a decrease in trade payables and accrued liabilities of \$184,000, and a decrease in the current portion of long-term debt of \$100,000 which was offset by an increase in the current portion of the CAAP loan of \$8,000.

Non-current liabilities totaling \$1,497,000 decreased by the net amount of \$40,000 primarily due to the repayment of and reclassification to current portion of long-term debt of \$618,000 offset by an increase in the discounted CAAP loan in the amount of \$25,000 and the utilization of an additional \$634,000 of deferred tax assets against taxable income for the period which resulted in a net deferred tax liability of \$634,315 at September 30, 2017.

Equity of \$24,064,000 at September 30, 2017 increased by \$1,663,000 from equity of \$22,401,000 at December 31, 2016 due to the recognition of net income of \$684,000 for the nine month period ended September 30, 2017, the recognition of share-based compensation of \$481,000, and an increase from the exercise of stock options and warrants of \$498,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended September 30, 2017 and 2016.

<u>\$000s</u>	Quarters		Nine Months	
	Ended September 30,		Ended September 30,	
	2017	2016	2017	2016
Sources of funds:				
Funds generated from operations (cash flow)	795	1,091	2,213	5,093
Changes in non-cash working capital items relating to operating activities	336	8	-	-
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	-	-	-	-
Grant used for capital assets	136	-	529	18
Share issuance	10	10,088	498	10,185
	1,277	11,187	3,240	15,296
Uses of funds:				
Purchase of property and equipment	(292)	(574)	(1,473)	(1,828)
Purchase of leasehold improvements	(92)	(415)	(857)	(2,461)
Deposits relating to investing activities	(111)	-	(532)	-
Changes in non-cash working capital items relating to operating activities	-	-	(1,077)	(827)
Changes in non-cash accounts payable and accrued liabilities relating to investing	(151)	(684)	(193)	(843)
Interest paid	(20)	(49)	(69)	(158)
Share issuance costs	-	(884)	-	(884)
Repayment of long-term debt	(255)	(245)	(754)	(730)
	(921)	(2,851)	(4,955)	(7,731)
Net change in cash flows	356	8,336	(1,715)	7,565

Net change in cash flow was a decrease of \$1,715,000 during the nine month period ended September 30, 2017 in comparison with an increase of \$7,565,000 for the same period in 2016. The significant difference is primarily due to the closing of a private placement in July 2016 which netted cash proceeds to the Company of \$9,116,000 and due to the Company generating more funds from operations during the record breaking comparative nine month period, \$5,093,000 compared to \$2,213,000 generated in the current period. The higher financing and operating cash flows generated in 2016 were offset by \$1,426,000 lower expenditures on property and equipment and leaseholds in 2017 as well as more cash generated from grant funding in 2017.

The net change in cash flows from operations also reflects increased spending on research and development expenses. While the Company views increased spending on research and development projects relating to its enabling technologies, research on product development and new applications for its value driving products as an important expenditure that will support value creation and future revenues and profits, during the research stage it has a negative impact on net income and net cash flows from operations. The Company intends to continue to increase investment in research and development.

Capital expenditures during the nine months ended September 30, 2017 were lower than the comparative period. In the first nine months of 2016 the expenditures related primarily to the construction of the extraction/fractionation part of the new facility. This construction was completed at the end of the third quarter of 2016.

In the first nine months of 2017, the property and equipment expenditures related partially to the commissioning and validation of the extraction/fractionation processes, partially to the construction of a pilot scale skid for the Company's PGX technology for which grant funding was recognized, as well as to new equipment improvements made to continuously improve the manufacturing process. The Company also made deposits on the purchase of a custom designed ethanol recovery system and incurred leasehold improvement expenditures relating to design work for the construction necessary to install and house the new ethanol recovery system in the additional new facility space obtained in 2016. The purchase of the ethanol recovery system is expected to be completed in 2017, and the related leasehold improvements and installation is planned for 2018.

The Company has a positive working capital balance of \$9,039,801 at September 30, 2017. Based on current plans, the Company estimates that it has sufficient capital necessary to complete final commissioning activities and validation trials at the newly completed manufacturing facility, to complete the purchase and commence installation of an ethanol recovery system which is expected to improve the Company's manufacturing process, and the capital necessary to proceed with previously disclosed research and development projects and upcoming clinical trials.

The Company also 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.

On October 25, 2017, the Company completed an acquisition of all of the issued and outstanding shares of Juvente^{DC} Inc., a Quebec based cosmeceutical company involved in the development and commercialization of natural anti-aging products, for total consideration of \$650,000 paid in cash. The acquisition will facilitate the Company's entry into the end-user cosmeceuticals market.

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 November 14, 2017 were 75,546,859 (November 22, 2016 – 73,199,814). In addition, 2,298,668 stock options, 4,244,480 warrants, and 660,377 broker unit warrants as at November 14, 2017 (November 22, 2016 – 2,265,002 stock options, 4,716,981 warrants, and 660,377 broker unit warrants) were outstanding that are potentially convertible into an equal number of common shares at various prices.

GRANT FUNDING

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

b) During the year ended December 31, 2011, the Company entered into a Contribution Agreement with Alberta Innovates Bio Solutions (AI-Bio Solutions) for a non-repayable grant contribution totaling up to \$1,600,000 towards the construction of a new bio-processing facility and subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received \$750,000 in 2011, and received \$690,000 in 2013. A final payment of \$160,000 was received in 2016 and has been recorded as a reduction of capitalized expenditures. The project has been completed at December 31, 2016.

c) During the year ended December 31, 2014, the Company entered into a non-repayable grant agreement with AI-Bio Solutions to provide funding of up to \$198,000 for certain research activities. During the nine months ended September 30, 2017 the Company received \$19,800 (year ended December 31, 2016 - \$89,100). An amount of \$19,800 (year ended December 31, 2016- \$89,100) was expended on the research project. The project has been completed at September 30, 2017.

d) During the year ended December 31, 2015, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to \$52,000 for certain research activities. During the year ended December 31, 2016, the Company received or recorded as a receivable \$5,791 (2015 - \$14,083) which has been recorded as a reduction of research and development activities. The project has been completed at December 31, 2016.

e) During the year ended December 31, 2015, the Company entered into a contribution agreement with AI-Bio Solutions for a non-repayable funding contribution of \$800,000 to implement the scale-up of the Company's Enabling Pressurized Gas Expanded (PGX) Technology. During the year ended December 31, 2015, the Company received \$300,000. During the year ended December 31, 2016, the Company recognized \$17,572 as a reduction of capital expenditures and the balance of \$282,428 remained recorded as deferred revenue at December 31, 2016. During the nine months ended September 30, 2017, the Company received an additional \$300,000 and recognized \$500,555 on eligible equipment and \$60,650 on eligible expenses. The balance of the grants received of \$21,223 remains recorded as deferred revenue at September 30, 2017. The Company anticipates receiving an additional \$100,000 during the remainder of 2017 and \$100,000 in 2018.

f) During the year ended December 31, 2015, the Company entered into a contribution agreement with Industrial Research Assistance Program (IRAP) for non-repayable funding of up to a maximum of \$350,000 for costs incurred on the demonstration and testing of the Company's PGX Technology. During the nine months ended September 30, 2017, IRAP and the Company agreed to amend the contribution agreement to increase the non-repayable funding up to a maximum of \$400,000. During the nine months ended September 30, 2017, the Company received or recorded as a receivable \$82,816 (2016 - \$199,506) which has been recorded as a reduction of research and project development expenses. The project has been completed at September 30, 2017.

g) During the year ended December 31, 2016, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to \$33,000 for certain research activities. During the nine months ended September 30, 2017, the Company received \$9,623 (year ended December 31, 2016 - \$7,594) which has been recorded as a reduction of research and development activities. The project has been completed at September 30, 2017.

h) During the year ended December 31, 2016, the Company entered into a contribution agreement with the German-Canadian Centre for Innovation and Research to provide a non-repayable funding contribution of up to \$247,856 for the advancement of the Company's PGX Technology. During the year ended December 31, 2016, the Company received \$50,000 and recognized \$2,625 as a reduction of research and development expenditures and \$19,038 as a reduction of capital expenditures. The balance was recorded as deferred revenue at December 31, 2016. During the nine months ended September 30, 2017, the Company received an additional \$64,196 and recognized \$63,715 as a reduction of research and development expenditures and \$28,818 as a reduction of capital expenditures. The Company anticipates receiving an additional \$134,000 in 2018.

Related Party Transactions

During the nine month period ended September 30, 2017, \$Nil (2016 - \$4,000) of interest was earned by a company controlled by an officer and by a close family member of a director from their \$Nil (2016 - \$75,000) investments in the convertible debenture financing.

During the nine month period ended September 30, 2017, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling \$603,000 (2016 - \$424,000) and share-based payments expense for key management personnel was \$471,000 (2016 - \$58,000).

The amount payable to directors at September 30, 2017 was \$40,000 (2016 - \$40,000). Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities at September 30, 2017 was \$Nil (2016 - \$21,000).

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

Commitments and Contingencies

(a) During the year ended December 31, 2011, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$724,500 pursuant to a product development agreement. The Company and Ceapro Veterinary Products Inc. filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and have been submitted to the presiding judge. The Company believes it has presented strong defenses to the allegations at trial and no provision has been made in the consolidated financial statements for this litigation.

(b) During the year ended December 31, 2012, the Company and its wholly-owned subsidiary, Ceapro Technology Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$1,470,000 pursuant to two product development agreements. The Company and Ceapro Technology Inc. filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and have been submitted to the presiding judge. The Company believes it has presented strong defenses to the allegations at trial and no provision has been made in the consolidated financial statements for this litigation.

(c) 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:

<u>Year</u>	<u>Amount</u>
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.

(d) 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.

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

Outlook

Looking forward, we expect our base business in cosmeceuticals to be very solid over the next twelve months due to a continued increase of sales of avenanthramides, increased sales of beta glucan to new customers as well as sales of cosmeceuticals directly to high end value customers. This base business is the foundation to secure a revenue stream to support necessary significant investments in human resources and the development of our product pipeline to enable the transition of Ceapro to a full-fledged biopharmaceutical company serving large nutraceuticals and pharmaceuticals markets with our value drivers' beta glucan and avenanthramides respectively known for their cholesterol reducing and anti-inflammatory properties.

We will also maintain an extensive research program with our proprietary PGX platform technology for which we have the worldwide rights for all industrial applications.

We are committed to remain focused on executing our strategic imperatives for growth that will drive significant value to all of our shareholders in the near, mid and long term.

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.

**Unaudited Condensed Consolidated Financial Statements for the
Third Quarter Ended September 30, 2017**

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed interim consolidated financial statements of Ceapro Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Financial Statements

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

	September 30, 2017	December 31, 2016
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	7,435,743	9,150,035
Trade receivables	1,266,018	566,024
Other receivables	74,704	122,411
Inventories (note 4)	1,117,071	1,183,428
Prepaid expenses and deposits	935,507	371,950
	10,829,043	11,393,848
Non-Current Assets		
Investment tax credits receivable	487,339	487,339
Deposits	90,986	90,986
Licences (note 5)	28,144	30,366
Property and equipment (note 6)	15,915,045	14,324,887
Deferred tax assets	-	64,208
	16,521,514	14,997,786
TOTAL ASSETS	27,350,557	26,391,634
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	785,318	969,234
Deferred revenue (note 8)	21,223	489,613
Current portion of long-term debt (note 7)	901,887	1,002,246
Current portion of CAAP loan (note 10)	80,814	72,942
	1,789,242	2,534,035
Non-Current Liabilities		
Long-term debt (note 7)	637,310	1,255,658
CAAP loan (note 10)	225,794	201,233
Deferred tax liabilities	634,315	-
	1,497,419	1,456,891
TOTAL LIABILITIES	3,286,661	3,990,926
Equity		
Share capital (note 9 (b))	15,535,450	14,859,136
Contributed surplus (note 9 (f))	4,177,838	3,874,725
Retained earnings	4,350,608	3,666,847
	24,063,896	22,400,708
TOTAL LIABILITIES AND EQUITY	27,350,557	26,391,634

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

Financial Statements

CEAPRO INC.
Consolidated Statements of Net Income and Comprehensive Income
Unaudited

	Quarters		Nine Months	
	Ended September 30, 2017	2016	Ended September 30, 2017	2016
	\$	\$	\$	\$
Revenue (note 14)	3,600,242	3,017,679	9,956,977	11,249,110
Cost of goods sold	1,727,223	1,124,464	4,354,778	3,507,744
Gross margin	1,873,019	1,893,215	5,602,199	7,741,366
Research and product development	435,039	264,505	1,332,201	531,086
General and administration	586,566	527,856	2,112,592	1,548,360
Sales and marketing	730	1,123	9,747	3,952
Finance costs (note 13)	21,018	48,887	121,194	196,264
Income from operations	829,666	1,050,844	2,026,465	5,461,704
Other operating loss (note 12)	(225,686)	(157,182)	(653,526)	(476,461)
Income before tax	603,980	893,662	1,372,939	4,985,243
Income taxes				
Current tax recovery (expense)	-	-	9,345	(421,916)
Deferred tax expense	(308,410)	(248,619)	(698,523)	(1,069,094)
Income tax expense	(308,410)	(248,619)	(689,178)	(1,491,010)
Total comprehensive income for the period	295,570	645,043	683,761	3,494,233
Net income per common share (note 19):				
Basic	0.00	0.01	0.01	0.05
Diluted	0.00	0.01	0.01	0.05
Weighted average number of common shares outstanding (note 19):				
Basic	75,365,319	71,757,406	75,293,096	65,762,004
Diluted	76,371,934	76,598,880	76,739,362	69,520,435

See accompanying notes

Financial Statements

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

	Share capital \$	Contributed surplus \$	Equity component of convertible debentures \$	Retained earnings (deficit) \$	Total equity \$
Balance December 31, 2016	14,859,136	3,874,725	-	3,666,847	22,400,708
Share-based payments	-	481,395	-	-	481,395
Stock options exercised	91,392	(43,360)	-	-	48,032
Warrants exercised	584,922	(134,922)	-	-	450,000
Net income for the period	-	-	-	683,761	683,761
Balance September 30, 2017	15,535,450	4,177,838	-	4,350,608	24,063,896
Balance December 31, 2015	6,800,018	1,029,564	106,200	(59,248)	7,876,534
Issuance of common share units (note 9 (b))	7,944,661	2,055,339	-	-	10,000,000
Common share issuance costs, net of tax of \$238,621 (note 9 (b))	(1,515,413)	870,253	-	-	(645,160)
Share-based payments	-	115,271	-	-	115,271
Stock options exercised	331,887	(147,188)	-	-	184,699
Net income for the period	-	-	-	3,494,233	3,494,233
Balance September 30, 2016	13,561,153	3,923,239	106,200	3,434,985	21,025,577

See accompanying notes

Financial Statements

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

Nine Months Ended September 30,	2017 \$	2016 \$
OPERATING ACTIVITIES		
Net income for the period	683,761	3,494,233
Adjustments for items not involving cash		
Finance costs	20,228	31,856
Transaction costs	13,533	19,137
Depreciation and amortization	261,823	286,918
Unrealized foreign exchange loss (gain) on long-term debt	21,698	(18,575)
Accretion	32,433	95,271
Deferred tax expense	698,523	1,069,094
Share-based payments	481,395	115,271
Net income for the period adjusted for non-cash items	2,213,394	5,093,205
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(699,994)	(413,188)
Other receivables	47,707	8,582
Investment tax credits receivable	-	115,963
Inventories	66,357	420,429
Prepaid expenses and deposits	(31,753)	132,556
Deferred revenue	(468,390)	(889,770)
Income tax payable	-	(95,180)
Accounts payable and accrued liabilities relating to operating activities	9,057	(106,403)
Total changes in non-cash working capital items	(1,077,016)	(827,011)
Net income for the period adjusted for non-cash and working capital items	1,136,378	4,266,194
Interest paid	(69,017)	(158,380)
CASH GENERATED FROM OPERATIONS	1,067,361	4,107,814
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,473,431)	(1,827,765)
Purchase of leasehold improvements	(856,912)	(2,460,586)
Deposits relating to investment in equipment	(531,804)	-
Accounts payable and accrued liabilities relating to investing activities	(192,973)	(843,069)
CASH USED BY INVESTING ACTIVITIES	(3,055,120)	(5,131,420)
FINANCING ACTIVITIES		
Issuance of common share units	-	10,000,000
Common share issuance costs	-	(883,781)
Stock options exercised	48,032	184,699
Warrants exercised	450,000	-
Repayment of long-term debt	(753,938)	(730,330)
Grant used for purchase of leaseholds, property and equipment	529,373	17,572
CASH GENERATED FROM FINANCING ACTIVITIES	273,467	8,588,160
(Decrease) increase in cash and cash equivalents	(1,714,292)	7,564,554
Cash and cash equivalents at beginning of the period	9,150,035	1,681,125
Cash and cash equivalents at end of the period	7,435,743	9,245,679

See accompanying notes

Cash and cash equivalents are comprised of \$7,407,682 (2016 - \$8,956,413) on deposit with financial institutions, \$21,223 (2016 - \$282,428) restricted cash on deposit with financial institutions (see note 8), and \$6,838 (2016 - \$6,838) held in money market mutual funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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. 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 interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of consolidated financial statements, including IFRS 34, "Interim Financial Reporting". The accounting principles and methods of computation adopted in these financial statements are the same as those of the annual financial statements for the year ended December 31, 2016.

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements. The financial statements and notes presented should be read in conjunction with the annual financial statements for the year ended December 31, 2016.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on November 14, 2017.

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., and Ceapro USA Inc. On April 1, 2016, the Company completed a vertical amalgamation with its wholly-owned subsidiary Ceapro Veterinary Products Inc.

All intercompany accounts and transactions have been eliminated on consolidation.

3. CHANGES IN ACCOUNTING POLICIES

Future accounting policies not yet adopted

At the date of authorization of these consolidated financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Company. Information on those expected to be relevant to the Company's consolidated financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations, and amendments either not adopted or listed below, are not expected to have a material impact on the Company's consolidated financial statements.

IFRS 9 “Financial instruments”

In July 2014, the IASB released the final version of IFRS 9 “Financial instruments”, representing the completion of its project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. The new standard introduces extensive changes to IAS 39’s guidance on the classification and measurement of financial assets and introduces a new “expected credit loss” model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

IFRS 9 is effective for reporting periods beginning on or after January 1, 2018. The Company’s management does not expect any material impact from the adoption of IFRS 9 on these consolidated financial statements.

IFRS 15 “Revenue from Contracts with Customers”

In May 2014, the IASB released IFRS 15 “Revenue from Contracts with Customers” which presents new requirements for the recognition of revenue, replacing IAS 18 “Revenue”, IAS 11 “Construction contracts”, and several revenue related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The Company’s management is currently assessing the impact of IFRS 15 on these consolidated financial statements. The full extent of the impact has not yet been determined.

IFRS 16 “Leases”

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

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Company’s management has not yet assessed the impact of IFRS 16 on these consolidated financial statements.

4. INVENTORIES

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

	September 30, 2017	December 31, 2016
	\$	\$
Raw materials	884,172	337,491
Work in progress	102,347	269,077
Finished goods	130,552	576,860
	<u>1,117,071</u>	<u>1,183,428</u>

Inventories expensed to cost of goods sold during the nine month period ended September 30, 2017 are \$4,253,849 (June 30, 2016 - \$3,454,139).

5. LICENCES

During the year ended December 31, 2014, and as amended on February 2, 2015, the Company entered into a licence agreement with the University of Alberta for the rights to a technology that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients for all industrial applications. The agreement expires after a term of 20 years or after the expiration of the last patent obtained whichever event shall occur first. There is no initial licence fee, but the Company is required to make royalty payments (see note 16 (d)).

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 \$2,222 has been included in general and administration expense for the period ended September 30, 2017 (September 30, 2016 - \$2,222) (see note 16 (c)).

Cost of licences	\$
Balance - December 31, 2016	44,439
Additions	-
Balance - September 30, 2017	44,439
Accumulated amortization	
Balance - December 31, 2016	14,073
Amortization	2,222
Balance - September 30, 2017	16,295
Net book value	
Balance - September 30, 2017	28,144
Balance - December 31, 2016	30,366

6. PROPERTY AND EQUIPMENT

	Equipment not available for use	Manufacturing Equipment	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Cost	\$	\$	\$	\$	\$	\$
December 31, 2016	5,151,819	4,130,165	307,326	417,765	7,807,070	17,814,145
Additions	1,346,186	168,118	-	7,916	856,912	2,379,132
Cost reduced by grant	(500,555)	(28,818)	-	-	-	(529,373)
Disposal	-	-	-	-	-	-
September 30, 2017	5,997,450	4,269,465	307,326	425,681	8,663,982	19,663,904
Accumulated						
Depreciation						
December 31, 2016	-	2,755,104	157,178	333,122	243,854	3,489,258
Additions	-	182,895	22,522	19,989	34,195	259,601
Disposal	-	-	-	-	-	-
September 30, 2017	-	2,937,999	179,700	353,111	278,049	3,748,859
Carrying Value						
September 30, 2017	5,997,450	1,331,466	127,626	72,570	8,385,933	15,915,045
December 31, 2016	5,151,819	1,375,061	150,148	84,643	7,563,216	14,324,887

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold	Inventory	General and administration	Total
	\$	\$	\$	\$
Nine Months Ended September 30, 2017	149,262	11,956	98,383	259,601
Nine Months Ended September 30, 2016	123,602	40,993	120,101	284,696

The carrying value of the leasehold improvements and equipment not available for use represent the accumulated expenditures incurred on the construction of a new manufacturing facility, net of government funding received, and amortization taken to date on leasehold improvements of \$628,471 currently in use. At September 30, 2017, construction of the extraction/fractionation area of the facility is complete. Amortization of this area has not commenced since it is still in the commissioning and validation phase.

Included in the additions for equipment not available for use are capitalized borrowing costs of \$48,789 and capitalized employee salaries and benefits of \$259,755 arising directly from the installation and related construction of the new manufacturing equipment and production process. The borrowing costs have been capitalized at the rates of the specific borrowings ranging between 2.85% and 3.91%.

Included in prepaid expenses and deposits are advance payments of \$635,143 (December 31, 2016 - \$213,926) on the purchase of a custom designed ethanol recovery system. The purchase of this specialized equipment is expected to be completed in 2017 for additional payments of \$589,985USD. Based on the exchange rate at September 30, 2017, the estimated remaining payments will be approximately \$736,000 in Canadian dollars.

7. LONG-TERM DEBT

	September 30, 2017 \$	December 31, 2016 \$
Loan payable secured by a general security agreement, due January, 2018 (a).	66,233	212,254
Loan payable secured by certain intellectual property, due January, 2019 (b).	413,856	614,970
Loan payable secured by a general security agreement, due April, 2019 (c).	542,992	787,242
Loan payable secured by a forklift, due June, 2018 (d).	9,214	19,139
Loan payable secured by a general security agreement, due July, 2020 (e).	531,799	662,729
Transaction costs	(24,897)	(38,430)
	1,539,197	2,257,904
Less current portion	901,887	1,002,246
	637,310	1,255,658

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

Period Ended September 30, 2017	20,228
Period Ended September 30, 2016	31,856

(a) During the year ended December 31, 2012, a loan from Agriculture Financial Services Corporation ("AFSC") was renewed to January 1, 2018 at an interest rate of 3.71% with monthly blended principal and interest payments of \$16,674 starting February 1, 2013. The loan is secured by a general security agreement covering all present and after acquired personal property subject to a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 7(b).

(b) During the year ended December 31, 2013, the Company entered into a loan agreement with its distribution partner, Symrise, which is secured by certain intellectual property and is due January 2, 2019. The loan, for 1 million Euro, is repayable over 5 years at an interest rate of 2.85%. At September 30, 2017, the loan balance was 280,733 (December 31, 2016 – 434,025) Euro. Monthly blended principal and interest payments in the amount of 17,902 Euro commenced February 1, 2014. Based on the exchange rate at September 30, 2017, the monthly payment is \$26,391 (December 31, 2016 - \$25,365) in Canadian dollars.

(c) During the year ended December 31, 2013, the Company entered into a loan agreement with AFSC which is due April 1, 2019. The loan can be drawn to maximum \$1,600,000 Canadian dollars, is repayable over a 5-year term, and has an interest rate of 3.91%. Monthly blended principal and interest payments in the amount of \$29,352 commenced on May 1, 2014. The loan is secured by a general security agreement covering all present and after acquired personal property subject to a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 7(b).

(d) During the year ended December 31, 2014, the Company entered into a loan agreement to purchase a forklift. The loan is repayable over a four-year term and requires monthly blended principal and interest payments of \$1,167 and has an interest rate of 6.15%. The loan is secured by the forklift with a carrying value of \$50,031 (2016 - \$50,031) and is due June 1, 2018.

(e) During the year ended December 31, 2015, the Company entered into a loan agreement with AFSC which is due July 1, 2020. The loan can be drawn to maximum \$900,000 Canadian dollars, is repayable over a 5-year term, and has an interest rate of 3.84%. Monthly blended principal and interest payments in the amount of \$16,483 commenced on August 1, 2015. The loan is secured by a general security agreement covering all present and after acquired personal property subject to a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 7(b).

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

8. DEFERRED REVENUE

During the year ended December 31, 2015, the Company received \$300,000 from Alberta Innovates Bio Solutions (AI-Bio Solutions) under non-repayable grant agreements to fund a research project. During the year ended December 31, 2016, the Company expended \$17,572 of the restricted cash on equipment. During the nine months ended September 30, 2017, the Company expended \$500,555 on eligible equipment and \$60,650 on eligible expenses and received an additional \$300,000 in grant funds. The balance of the grants received of \$21,223 at September 30, 2017 (\$282,428 at December 31, 2016) are restricted for eligible project expenditures which have not yet been incurred; therefore, they are presented as deferred revenue.

During the year ended December 31, 2016, the Company received \$50,000 from the German-Canadian Centre for Innovation and Research under a contribution agreement to fund a research project and expended \$21,663 on eligible expenses and equipment. During the nine months ended September 30, 2017 the Company received an additional \$64,196 and expended \$28,818 on eligible equipment and \$63,715 on eligible expenses. The balance of grants received of \$NIL (December 31, 2016 - \$28,337) are restricted for eligible project expenditures which have not yet been incurred; therefore, they are presented as deferred revenue.

Deferred revenue also includes \$NIL (December 31, 2016 - \$178,848) for prepaid sales orders from customers.

9. 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

	Nine Months Ended September 30, 2017		Year Ended December 31, 2016	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance at beginning of the period	74,872,225	14,859,136	62,490,821	6,800,018
Stock options exercised	214,634	91,392	1,275,031	333,999
Warrants exercised	300,000	584,922	172,500	335,927
Issuance of common share units	-	-	9,433,962	7,944,661
Common share issuance costs, net of tax benefit of \$238,621	-	-	-	(1,515,413)
Conversion of debentures	-	-	1,499,911	959,944
Balance at end of the period	75,386,859	15,535,450	74,872,225	14,859,136

In July 2016, pursuant to a brokered private placement, the Company issued 9,433,962 units at \$1.06 per unit for aggregate proceeds of \$10,000,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one additional common share at an exercise price of \$1.50 for a period of 24 months following the closing of each tranche of the offering. 5,348,592 units were issued pursuant to the first close on July 8, 2016 and 4,085,370 units were issued pursuant to the second and final close on July 13, 2016.

The fair value of the whole warrant for both closings was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.5%, an expected life of the warrant of 2 years, no expected dividends, and an expected volatility of 98% which was based on prior trading activity of the Company's shares. The total proceeds from the sale of units has been allocated to share capital and contributed surplus in the amount of \$7,944,661 and \$2,055,339 respectively, in proportion to the relative fair values of the common share and warrant.

Included in common share issuance costs, is a cash commission of \$700,000 representing 7% of the gross proceeds raised paid to the broker. In addition, the Company issued to the broker 660,377 compensation broker unit warrants (each a "broker unit warrant") representing 7% of the total common shares issued in connection with the offering. Each broker unit warrant entitles the broker to acquire one common share (each a "broker share") and one-half of one common share purchase warrant (each a "broker warrant") at a price of \$1.06 for a period of 24 months following the closing of each tranche of the offering. 374,401 broker unit warrants were issued pursuant to the first close on July 8, 2016 and 285,976 broker unit warrants were issued pursuant to the second and final close on July 13, 2016. Each whole broker warrant entitles the broker to acquire one additional common share at an exercise price of \$1.50 for a period of 24 months following the closing of each tranche of the offering.

The fair value of the broker unit warrants and the broker warrants for both closings was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.5%, an expected life of the warrant of 2 years, no expected dividends, and an expected volatility of 98% which was based on prior trading activity of the Company's shares. The fair value of the broker unit warrants in the amount of \$870,253 is included in common share issuance costs and has been presented as part of contributed surplus.

In December 2016, the Company issued 1,499,911 common shares on the conversion of debentures totaling \$959,944 at a conversion price of \$0.64 per share.

c. Warrants

The following table summarizes the continuity of warrants:

	Nine Months Ended September 30, 2017		Year Ended December 31, 2016	
	Number of Warrants	Weighted Average Exercise Price \$	Number of Warrants	Weighted Average Exercise Price \$
Balance at beginning of the period	5,204,857	1.44	-	-
Issued with common share units	-	-	4,716,980	1.50
Issued to brokers	-	-	660,377	1.06
Exercised	(300,000)	1.50	(172,500)	1.50
Balance at end of period	4,904,857	1.44	5,204,857	1.44

The following table summarizes information about warrants outstanding:

Exercise Price \$	Expiry Date	September 30, 2017	December 31, 2016
		Number of Warrants	Number of Warrants
1.50	July 8, 2018	2,214,296	2,514,296
1.50	July 13, 2018	2,030,184	2,030,184
1.06	July 8, 2018	374,401	374,401
1.06	July 13, 2018	285,976	285,976
		4,904,857	5,204,857

d. Stock options and share-based payments

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

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the nine months ended September 30, 2017, the Company granted 410,000 (September 30, 2016 – 160,000) 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 2017 was 1.71% (2016 – 0.84%), the weighted average expected volatility was 118% (2016 - 105%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2016 – 5 years), forfeiture rate was 0% (2016 - 0%), the weighted average share price was \$1.74 (2016 – \$0.42), the weighted average exercise price was \$1.74 (2016 – \$0.42), and the expected dividends were nil (2016 - nil). The weighted average grant date fair value of options granted in the nine months ended September 30, 2017 was \$1.64 (2016 - \$0.28) per option.

The share-based payments expense recorded during the current period relating to options granted in 2017, 2016, and 2015 was \$481,395 (during 2016 relating to options granted in 2016, 2015, and 2014 - \$115,271).

A summary of the status of the Company's stock options at September 30, 2017 and December 31, 2016 and changes during the periods ended on those dates is as follows:

	Nine Months Ended September 30, 2017		Year Ended December 31, 2016	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at beginning of the period	2,263,302	0.36	3,446,667	0.28
Granted	410,000	1.74	160,000	0.42
Exercised	(214,634)	0.22	(1,275,031)	0.15
Forfeited	-	-	(68,334)	0.46
Outstanding at end of period	2,458,668	0.60	2,263,302	0.36
Exercisable at end of period	2,185,334	0.46	1,836,634	0.31

e. Stock options outstanding are as follows:

Fair Value \$	Exercise Price \$	Year of Expiration	Weighted Average Contractual Life Remaining (years)	September 30, 2017 Number of Options	December 31, 2016 Number of Options
1.22	1.30	2027	9.6	10,000	-
1.65	1.75	2027	9.3	400,000	-
0.25	0.27	2025	7.8	-	3,334
0.25	0.27	2025	7.8	3,334	3,334
0.34	0.36	2025	7.6	150,000	150,000
0.47	0.50	2025	7.3	100,000	100,000
0.60	0.64	2025	7.3	765,334	811,634
0.37	0.27	2024	7.1	150,000	150,000
0.13	0.14	2024	6.7	25,000	50,000
0.08	0.10	2024	6.3	300,000	425,000
0.05	0.10	2023	5.3	295,000	310,000
0.09	0.10	2022	4.8	160,000	160,000
0.22	0.44	2018	0.4	100,000	100,000
			6.8	2,458,668	2,263,302

f. Contributed surplus

	Nine Months Ended September 30, 2017 \$	Year Ended December 31, 2016 \$
Balance at beginning of the period	3,874,725	1,029,564
Issuance of common share units (note 9 (b))	-	2,055,339
Common share issuance costs (note 9 (b))	-	870,253
Share-based payments (note 9 (d))	481,395	144,958
Stock options exercised	(43,360)	(148,212)
Warrants exercised	(134,922)	(77,177)
Balance at end of the period	4,177,838	3,874,725

10. CAAP LOAN

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

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

The balance of repayable contribution is derived as follows:

	Nine Months Ended September 30, 2017 \$	Year Ended December 31, 2016 \$
Opening balance	274,175	308,471
Repayment	-	(83,884)
Accretion of CAAP loan	32,433	49,588
	306,608	274,175
Less current portion	80,814	72,942
	225,794	201,233

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

11. RELATED PARTY TRANSACTIONS

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

Nine Months Ended September 30,	2017 \$	2016 \$
Convertible debentures held by a company controlled by an officer and by a close family member of a director	-	75,000
Interest earned on convertible debentures held by a company controlled by an officer and by a close family member of a director	-	4,492
Key management salaries, short-term benefits, consulting fees, and director fees	603,390	424,042
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	-	21,000
Key management personnel share-based payments	470,727	57,522
Amount payable to directors	39,531	39,758

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.

12. OTHER OPERATING LOSS

	Quarters		Nine Months	
	Ended September 30, 2017	2016	Ended September 30, 2017	2016
	\$	\$	\$	\$
Foreign exchange loss	60,781	8,653	130,700	54,080
Other (income) expense	2,973	4,829	3,816	5,690
Quality management system	1,300	-	82,410	-
Plant relocation costs	160,632	143,700	436,600	416,691
	225,686	157,182	653,526	476,461

13. FINANCE COSTS

	Quarters		Nine Months	
	Ended September 30, 2017	2016	Ended September 30, 2017	2016
	\$	\$	\$	\$
Interest on long-term debt	5,291	9,586	20,228	31,856
Transaction costs	4,511	6,393	13,533	19,137
Royalties	-	-	55,000	50,000
Accretion of CAAP loan	11,216	12,619	32,433	36,490
Accretion of convertible debentures	-	20,289	-	58,781
	21,018	48,887	121,194	196,264

14. SEGMENTED INFORMATION

The Company operates in one industry segment, which is the active ingredient product technology industry. All the assets of the Company, which support the revenues of the Company, are located in Canada. The distribution of revenue by location of customer is as follows:

	Quarters		Nine Months	
	Ended September 30, 2017	2016	Ended September 30, 2017	2016
	\$	\$	\$	\$
United States	3,380,216	2,207,465	8,006,007	6,725,079
Germany	183,552	776,073	1,422,322	4,114,461
China	18,815	-	465,082	236,248
Other	9,527	25,013	55,434	139,305
Canada	8,132	9,128	8,132	34,017
	3,600,242	3,017,679	9,956,977	11,249,110

15. EMPLOYEE BENEFITS

	Quarters		Nine Months	
	Ended September 30, 2017	2016	Ended September 30, 2017	2016
	\$	\$	\$	\$
Employee benefits	786,874	705,107	2,552,379	2,043,252

Employee benefits include wages, salaries, bonus, and CPP, EI, WCB contributions, share-based payment expense and benefit premiums.

16. CONTINGENCIES AND COMMITMENTS

a) During the year ended December 31, 2011, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$724,500 pursuant to a product development agreement. The Company and Ceapro Veterinary Products Inc. filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and have been submitted to the presiding judge. The Company believes it has presented strong defenses to the allegations at trial and no provision has been made in the consolidated financial statements for this litigation.

b) During the year ended December 31, 2012, the Company and its wholly-owned subsidiary, Ceapro Technology Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$1,470,000 pursuant to two product development agreements. The Company and Ceapro Technology Inc. filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and have been submitted to the presiding judge. The Company believes it has presented strong defenses to the allegations at trial and no provision has been made in the consolidated financial statements for this litigation.

c) 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.

(d) 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.

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

17. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

	September 30, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Loans and receivables:				
Cash and cash equivalents	\$ 7,435,743	\$ 7,435,743	\$ 9,150,035	\$ 9,150,035
Trade and other receivables	1,340,722	1,340,722	688,435	688,435
Other financial liabilities:				
Accounts payable and accrued liabilities	\$ 785,318	\$ 785,318	\$ 969,234	\$ 969,234
Long-term debt	1,539,197	1,539,197	2,257,904	2,257,904
CAAP loan	306,608	306,608	274,175	274,175

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 95% of trade receivables are due from one distributor at September 30, 2017 (December 31, 2016 – 86% from two distributors) and all trade receivables at September 30, 2017 and December 31, 2016 are current. These main distributors are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$7,435,743 at September 30, 2017 (December 31, 2016 - \$9,150,035) 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 past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's trade and other receivables and cash and cash equivalents. The Company does not hold any collateral as security.

b) Liquidity risk

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

The following are the contractual maturities of the Company's financial liabilities and obligations:

	within 1 year \$	1 to 3 years \$	3 to 5 years \$	over 5 years \$	Total \$
Accounts payable and accrued liabilities	785,318	-	-	-	785,318
Long-term debt	943,913	673,662	-	-	1,617,575
CAAP loan	83,884	167,767	167,767	-	419,418
Total	1,813,115	841,429	167,767	-	2,822,311

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) and the Euro on the financial assets and liabilities of the Company.

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	1,014,437	10,144	(10,144)
Financial liabilities			
Accounts payable and accrued liabilities	260,289	(2,603)	2,603
Total increase (decrease)		7,541	(7,541)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial liabilities			
Long-term debt	280,733	(2,807)	2,807
Total (decrease) increase		(2,807)	2,807

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at September 30, 2017.

2. Interest rate risk

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

18. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the period ended September 30, 2017.

19. INCOME PER COMMON SHARE

	Quarters		Nine Months	
	Ended September 30, 2017	2016	Ended September 30, 2017	2016
Net income for the period for basic and diluted earnings per share calculation	\$295,570	\$645,043	\$683,761	\$3,494,233
Weighted average number of common shares outstanding	75,365,319	71,757,406	75,293,096	65,762,004
Effect of dilutive stock options and warrants	1,006,615	3,341,474	1,446,266	2,258,431
Effect of dilutive convertible debentures	-	1,500,000	-	1,500,000
Diluted weighted average number of common shares	76,371,934	76,598,880	76,739,362	69,520,435
Income per share - basic	\$0.00	\$0.01	\$0.01	\$0.05
Income per share - diluted	\$0.00	\$0.01	\$0.01	\$0.05

For the nine month period ended September 30, 2017, 4,654,480 (2016 – 4,716,981) stock options and warrants outstanding have not been included in the diluted income per share calculation because either the options' or warrants' exercise price or the unvested options' exercise price taking into consideration remaining share-based payments were greater than the average market price of the common shares during the period.

For the quarter ended September 30, 2017, 5,314,857 (2016 – NIL) stock options and warrants outstanding have not been included in the diluted income per share calculation because either the options' or warrants' exercise price or the unvested options' exercise price taking into consideration remaining share-based payments were greater than the average market price of the common shares during the period.

Interest on the convertible debentures is capitalized as a borrowing cost to a new manufacturing facility under construction and therefore, the dilutive impact from the potential conversion of the convertible debentures is limited only to an increase in the diluted weighted average number of common shares outstanding.

20. SUBSEQUENT EVENT

On October 25, 2017, the Company completed an acquisition of all of the issued and outstanding shares of Juvente^{DC} Inc., a Quebec based cosmeceutical company involved in the development and commercialization of natural anti-aging products, for total consideration of \$650,000 paid in cash. The Company is in the process of determining the accounting impact of this transaction.