

TSX-V: CZO



CEAPRO
Nature Enhancing Life®

Enhancing Life Through Nature



**Consolidated Financial Statements for the
Years Ended December 31, 2017 & 2016**

Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the years ended December 31, 2017 and 2016, the financial position as at December 31, 2017, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 17, 2018. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 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 years ended December 31, 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 April 17, 2018 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. (Juvente), is a wholly-owned subsidiary incorporated under the Canada Business Corporations Act.

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

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

- A potential platform using our *beta glucan* formulations to deliver compounds used for treatments in both personal and healthcare sectors;

- A variety of novel enabling technologies including Pressurized Gas eXpanded drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds;
- 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 93% of trade receivables are due from one distributor at December 31, 2017 (December 31, 2016 – 86% from two distributors) and all trade receivables at December 31, 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 \$6,173,895 at December 31, 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	979,626	-	-	-	979,626
Long-term debt	897,053	457,537	-	-	1,354,590
CAAP loan	83,884	167,767	83,884	-	335,535
Total	1,960,563	625,304	83,884	-	2,669,751

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	993,433	9,934	(9,934)
Financial liabilities			
Accounts payable and accrued liabilities	271,662	(2,717)	2,717
Total increase (decrease)		7,218	(7,218)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial liabilities			
Long-term debt	228,904	(2,289)	2,289
Total (decrease) increase		(2,289)	2,289

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 December 31, 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 impairment of non-financial assets and goodwill, inventory valuation, amortization of property and equipment and intangible assets, tax liabilities and tax assets, provisions, the assumptions used in determining share-based compensation, and the assumptions used to value royalty obligations. These estimates are based on historical experience and reflect certain assumptions about the future that we believe to be both reasonable and conservative. Actual results could differ from those estimates. Ceapro continually evaluates the estimates and assumptions.

f) Loss of key personnel

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

g) Interruption of raw material supply

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

h) Environmental issues

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

i) Regulatory compliance

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

j) Legal matters

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

k) Acquisitions

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

l) Fair value and impairment

The Company relies on forecasts and estimates in its evaluation of the fair value of financial instruments and the recoverable amounts of non-financial assets including goodwill in relation to impairment testing. The accuracy of such forecasts are inherently vulnerable to assumptions related to the timing of future events, the size of anticipated markets, forecasted costs, and the expected growth of sales. The inability to support the carrying value of goodwill and intangible assets in periods subsequent to acquisitions could require write-downs that adversely affect our operating results.

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 does not expect any material impact from the adoption of IFRS 15 on the consolidated financial statements.

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

Years Ended December 31, 2017, 2016 and 2015

CONSOLIDATED INCOME STATEMENT

<i>\$000s except per share data</i>	2017	%	2016	%	2015	%
Total revenues	12,926	100%	13,674	100%	10,668	100%
Cost of goods sold	5,654	44%	4,321	32%	3,639	34%
Gross margin	7,272	56%	9,353	68%	7,029	66%
Research and product development	1,606	12%	919	7%	625	6%
General and administration	2,841	22%	2,187	16%	2,519	24%
Sales and marketing	32	0%	5	0%	8	0%
Finance costs	137	1%	243	2%	247	2%
Income from operations	2,656	21%	5,999	44%	3,630	34%
Royalty provision - Ceapro Inc.	(779)	-6%	-	0%	-	0%
Royalty provision - Ceapro Technology Inc.	(1,375)	-11%	-	0%	-	0%
Other expenses (income)	(929)	-7%	(636)	-5%	204	2%
Income (loss) before tax	(427)	-3%	5,363	39%	3,834	36%
Income tax (expense) recovery	(531)	-4%	(1,743)	-13%	1,088	10%
Net income (loss)	(958)	-7%	3,620	26%	4,922	46%
Basic net income (loss) per common share	(0.013)		0.053		0.080	
Diluted net income (loss) per common share	(0.013)		0.051		0.075	

The financial results for the year ended December 31, 2017 have been significantly impacted by the recognition of one-time royalty provisions of \$779,000 for Ceapro Inc. and \$1,375,000 for a subsidiary that result from the rendering of judgements subsequent to the year-end, on claims filed against the Company and subsidiaries in 2011 and 2012. Please refer to the "Commitments and Contingencies" section for additional information. These provisions are not related to ongoing operations which will be discussed in the following sections.

Revenue

<i>\$000s</i>	Year Ended December 31,			Quarter Ended December 31,		
	2017	2016	Change	2017	2016	Change
Total revenues	12,926	13,674	-5%	2,969	2,425	22%

Revenue for the year ended December 31, 2017 amounted to \$12,926,000 compared to \$13,674,000 in 2016 representing a decrease of 5% or \$748,000. A significant portion of the difference is attributable to a lower U.S dollar relative to the Canadian dollar compared to the comparative year which negatively impacted revenue by approximately \$427,000. The difference is also attributable to a decrease in sales volumes of 11% primarily due to significantly lower sales of beta glucan which were offset by an increase in sales volumes of avenanthramides.

Revenue for the fourth quarter ended December 31, 2017 amounted to \$2,969,000 compared to \$2,425,000 for the fourth quarter ended December 31, 2016, representing an increase of 22% or \$544,000. The increase was primarily related to an overall increase in product sales volumes of 29%, 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 \$127,000.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

\$000s	Year Ended December 31,			Quarter Ended December 31,		
	2017	2016	Change	2017	2016	Change
Sales	12,926	13,674	-5%	2,969	2,425	22%
Cost of goods sold	5,654	4,321	31%	1,299	813	60%
Gross margin	7,272	9,353	-22%	1,670	1,612	4%
Gross margin %	56%	68%		56%	66%	

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.

The year ended December 31, 2017 reflects a decrease in revenue of 5%, while the cost of goods sold increased by 31% or \$1,333,000 resulting in a 22% decrease in gross margin or a decrease of \$2,081,000. The gross margin percentage decreased from 68% in the prior year to 56% for the year ending December 31, 2017. 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, an increase in quality control analysis and materials, and an increase in the cost of materials primarily due to a 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.

During the fourth quarter of fiscal 2017, cost of goods sold increased by \$486,000 or 60% compared to the comparative quarter. The increase is partly the result of an increase in sales of 22%, however, the percentage increase in the cost of sales was higher overall resulting in a lower gross margin percentage of 56% compared to 66% in the comparative quarter. The decrease in the gross margin percentage was a result of the same factors that impacted the year ended December 31, 2017, although the impact of the increased cost of grain was lower and the impact from a higher allocation of overhead over less production from higher processing required was more significant.

RESEARCH AND PRODUCT DEVELOPMENT

\$000s	Year Ended December 31,			Quarter Ended December 31,		
	2017	2016	Change	2017	2016	Change
Salaries and benefits	716	487		221	142	
Regulatory and patents	155	173		8	66	
Other	735	259		45	180	
Total research and product development expenditures	1,606	919	75%	274	388	-29%

During the year ended December 31, 2017, research and development expenses increased by 75% or \$687,000. 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 decrease in other research expense in the fourth quarter is related to the Company's annual SRED claim which was filed later in 2017 and was recognized in the fourth quarter of the current year. In the prior year it was recognized in the second quarter.

Research and development salaries and benefits increased in both the year ended and quarter ended December 31, 2017 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 year, 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. Because of timing differences the current quarter is significantly lower than the comparative fourth quarter; however, while the overall expense for the current year is slightly lower than 2016, it is comparable.

The increase in research and development expenses is in line with the Company's focus on investing in its various enabling technologies and research on product development and new applications for its value driving products. The Company intends to continue to increase investment in research and development in the next fiscal year.

GENERAL AND ADMINISTRATION

\$000s	Year Ended December 31,			Quarter Ended December 31,		
	2017	2016	Change	2017	2016	Change
Salaries and benefits	1,067	428		299	137	
Consulting	480	407		120	213	
Board of directors compensation	162	211		40	51	
Insurance	133	130		38	35	
Accounting and audit fees	97	89		17	18	
Rent	92	88		26	22	
Public company costs	294	314		42	63	
Travel	100	149		23	26	
Depreciation and amortization	141	139		43	19	
Legal	45	38		26	5	
Other	230	194		54	50	
Total general and administration expenses	2,841	2,187	30%	728	639	14%

General and administration expense for the year ended December 31, 2017 increased by \$654,000 or 30% from the prior year. The increase for both the year and quarter ended December 31, 2017 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 \$506,000. 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 \$228,000 which was offset by additional fees of \$150,000 paid to an officer in the fourth quarter of 2016. No additional fees were paid to the officer in the fourth quarter of 2017.

For both the year and quarter ended December 31, 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 year ended December 31, 2017, the overall increase in general and administration expense was also offset by a decrease in travel expenses of \$49,000 as attendance at conferences, meetings, and corporate events was lower in 2017.

For the fourth quarter ended December 31, 2017 the increase in general and administration expense was also partially due to an increase in legal expense relating to the acquisition of Juvente, as well as to an increase in depreciation and amortization due to the commencement of amortization of intangible assets acquired during the purchase of Juvente. These increases were offset by lower public company costs as 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.

SALES AND MARKETING

\$000s	Year Ended December 31,			Quarter Ended December 31,		
	2017	2016	Change	2017	2016	Change
Courses, conferences & advertising	25	1		18	-	
Other	7	4		4	1	
Total sales and marketing	32	5	540%	22	1	2100%

The Company's strategy throughout 2016 and the first three quarters of 2017 was to sell mostly through a distribution network instead of selling directly to end-users and as a result sales and marketing expenses were negligible. On October 25, 2017, the Company acquired Juvente^{DC} Inc. to sell cosmeceutical products directly to high-end value customers and the sales and marketing expense now reflects the marketing and advertising expenses incurred to market the Company's new line of anti-aging products.

FINANCE COSTS

\$000s	Year Ended December 31,			Quarter Ended December 31,		
	2017	2016	Change	2017	2016	Change
Interest on long-term debt	20	38		-	6	
Transaction costs	18	25		4	6	
Royalties	55	50		-	-	
Accretion of CAAP loan	44	50		12	14	
Accretion of convertible debenture	-	80		-	21	
	137	243	-44%	16	47	-66%

Finance costs decreased by 44% or \$106,000 in the year ended December 31, 2017 from \$243,000 in 2016 to \$137,000. The decrease primarily relates to an \$80,000 accretion charge for convertible debentures in the comparative year for which there was no charge in the current year as the convertible debentures were all converted to equity during the year ended December 31, 2016. The decrease is also primarily 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 fourth quarter of 2017 decreased by \$31,000, from \$47,000 in 2016 to \$16,000, due to the same factors that have impacted the year.

OTHER EXPENSES

\$000s	Year Ended December 31,			Quarter Ended December 31,		
	2017	2016	Change	2017	2016	Change
Foreign exchange loss (income)	133	7		2	(47)	
Quality management system	82	47		-	47	
Other loss (income)	(3)	10		(7)	4	
Plant relocation costs	659	572		222	155	
Loss on disposal of equipment	59	-		59	-	
	930	636	46%	276	159	74%

During the year ended December 31, 2017, other expenses increased by \$294,000 or 46% from \$636,000 in 2016 to \$930,000.

The increase was primarily due to a \$126,000 increase in foreign exchange loss over the comparative year. 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 year ended December 31, 2017, the Euro debt translation resulted in a \$30,000 loss compared to a \$44,000 gain in the comparative year.

The overall increase in other expenses was also impacted by an \$87,000 increase over the comparable year 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. A significant amount of the increase was attributed to the fourth quarter as a result of equipment repairs that could not be capitalized and utilities expense increases.

The increase was also related to an increase in expenditures on the improvement of the Company's quality management system. The Company commenced a project to implement an improved quality management system in the fourth quarter of fiscal 2016 which continued through the first two quarters in 2017. The new system is being designed to focus policies towards consistently meeting or exceeding customer requirements and is also aligned with the Company's strategic goal of transitioning to nutraceutical and pharmaceutical markets. The quality management system project will start back up again in the first quarter of fiscal 2018.

Other expenses for the quarter ended December 31, 2017 increased by \$117,000 or 74% from \$159,000 in Q4 2016 to \$276,000 incurred in Q4 of 2017. The increase was partially due to the increase in foreign exchange loss and plant relocation costs as discussed in the preceding paragraphs, but was also due to a \$59,000 loss on the disposal of an excess piece of manufacturing equipment during the quarter.

DEPRECIATION AND AMORTIZATION EXPENSE

In the year ended December 31, 2017, the total depreciation and amortization expense of \$326,000 (2016 - \$359,000) was allocated as follows: \$144,000 to general and administration expense (2016 - \$141,000), \$6,000 to inventory (2016 - \$55,000), and \$176,000 (2016 - \$163,000) to cost of goods sold.

Depreciation expense is 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. This was partially offset by an increase in depreciation from the acquisition of equipment from the purchase of Juvente and an increase in amortization expense relating to the acquisition of intangible assets from the purchase of Juvente.

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			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues	2,969	3,600	3,174	3,183	2,425	3,018	4,168	4,064
Net income (loss)	(1,642)	296	370	18	126	645	1,636	1,213
Basic net income (loss) per common share	(0.022)	0.004	0.005	0.000	0.002	0.009	0.026	0.019
Diluted net income (loss) per common share	(0.022)	0.004	0.005	0.000	0.002	0.008	0.025	0.018

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

Net income 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.

Net loss in the fourth quarter of 2017 includes the recognition of royalty provisions in the amount of \$2,154,000 resulting from judgements received subsequent to the year-end on statements of claims against the Company and its wholly-owned subsidiary Ceapro Technology Inc. Please refer to the "Commitments and Contingencies" section for additional information.

Liquidity and Capital Resources

CAPITAL EMPLOYED

\$000s	December 31, 2017	December 31, 2016
Non-current assets	18,811	14,998
Current assets	8,997	11,394
Current liabilities	(4,067)	(2,534)
Total assets less current liabilities	23,741	23,858
Non-current liabilities	1,197	1,457
Shareholders' equity	22,544	22,401
Total capital employed	23,741	23,858

Non-current assets increased by \$3,813,000 primarily due to the acquisition of \$3,472,000 of property and equipment net of grants offset by a depreciation provision of \$316,000 and a disposal of equipment of \$104,000. The increase was also due to the recognition of \$120,000 of new investment tax credits from a scientific research and development claim, the acquisition of intangible assets of \$500,000 offset by an amortization provision of \$10,000, and goodwill of \$219,000 from the purchase of Juvente, the utilization of \$64,000 of deferred tax assets against taxable income for the period, and the utilization of \$3,000 of deposits.

Current assets decreased by \$2,397,000. Cash decreased by \$2,976,000 primarily due to the acquisition of property and equipment and Juvente, a decrease of \$98,000 in inventories, and a decrease in prepaid expenses and deposits of \$94,000 which was offset by an increase in trade and other receivables of \$771,000.

Current liabilities totaling \$4,067,000 increased by the net amount of \$1,533,000 primarily due to the recognition of a royalty provision of \$2,154,000 resulting from the judgements on lawsuits subsequent to the year-end and an increase in trade payables of \$10,000 which was offset by the recognition of \$490,000 of deferred revenue and a decrease in the current portion of long-term debt of \$141,000.

Non-current liabilities totaling \$1,197,000 decreased by the net amount of \$260,000 primarily due to the repayment of and reclassification to current portion of long-term debt of \$825,000 and the repayment of the CAAP loan net of accretion of \$40,000 which was offset by the utilization of an additional \$605,000 of deferred tax assets against taxable income for the year which resulted in a net deferred tax liability of \$605,000 at December 31, 2017.

Equity of \$22,544,000 at December 31, 2017 increased by \$143,000 from equity of \$22,401,000 at December 31, 2016 due to the recognition of a net loss of \$958,000 for the year ended December 31, 2017, the recognition of share-based compensation of \$587,000, and an increase from the exercise of stock options and warrants of \$514,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the years ended December 31, 2017 and 2016.

<i>\$000s</i>	Year Ended		Quarter Ended	
	Ended December 31, 2017	2016	Ended December 31, 2017	2016
Sources of funds:				
Funds generated from operations adjusted for non-cash items	667	5,594	-	501
Grant used for capital assets	616	196	87	178
Share issuance	514	10,445	16	260
Changes in non-cash working capital items relating to operating activities	988	-	2,065	321
Proceeds from disposal of equipment	45	-	45	-
Deposits relating to investing activities	128	-	660	-
	2,958	16,235	2,873	1,260
Uses of funds:				
Funds used in operations adjusted for non-cash items	-	-	(1,546)	-
Purchase of property and equipment	(3,108)	(2,268)	(1,635)	(440)
Purchase of leasehold improvements	(911)	(2,576)	(54)	(115)
Deposits relating to investing activities	-	(137)	-	(137)
Changes in non-cash working capital items relating to operating activities	-	(506)	-	-
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	(89)	(1,131)	104	(288)
Interest paid	(81)	(203)	(12)	(45)
Share issuance costs	-	(884)	-	-
Acquisition of Juvente, net of cash acquired	(647)	-	(647)	-
Repayment of long-term debt	(1,098)	(1,061)	(344)	(331)
	(5,934)	(8,766)	(4,134)	(1,356)
Net change in cash flows	(2,976)	7,469	(1,261)	(96)

Net change in cash flow was a decrease of \$2,976,000 during the year ended December 31, 2017 in comparison with an increase of \$7,469,000 for the year ended December 31, 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 in 2016 a record breaking comparative year. In addition, the Company purchased Juvente for \$647,000 (net of cash acquired) in 2017. The higher financing and operating cash flows generated in 2016 and the Juvente purchase in 2017 were partially offset by \$825,000 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 year ended December 31, 2017 were lower than the comparative year. During the year ended December 31, 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.

During the year ended December 31, 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 purchased 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 was completed in Q4 of 2017. The related leasehold improvements and installation of the equipment is not planned until late 2018 as the Company's priority of efforts will first be directed to satisfying upcoming customer audits on the new facility.

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 of Juvente represents a step forward in executing on a strategic market diversification strategy, to expand our product portfolio with the development of formulations that utilize our two value drivers, beta glucan and avenanthramides, and to enable us to enter into the high-end cosmeceuticals market and market directly to the end-user. The Company will be focusing on advertising and developing marketing channels in 2018 and on the development of additional products to the Juvente line.

The Company has a positive working capital balance of \$4,929,733 at December 31, 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 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.

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

Total common shares issued and outstanding as at April 17, 2018 were 75,756,859 (April 5, 2017 – 75,210,225). In addition, 2,598,668 stock options, 4,244,480 warrants, and 660,377 broker unit warrants as at April 17, 2018 (April 5, 2017 – 2,485,302 stock options, 4,294,480 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 was recorded as a reduction of capitalized expenditures. The project was completed during the year ended 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 year ended December 31, 2017, the Company received a final payment of \$19,800 (2016 - \$89,100). An amount of \$19,800 (2016 - \$89,100) was expended on the research project. The project has been completed at December 31, 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, 2017, the Company received or recorded as a receivable \$NIL (2016 - \$5,791) which has been recorded as a reduction of research and development activities. The project was completed during the year ended 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 year ended December 31, 2017, the Company received an additional \$300,000 and recognized \$557,908 on eligible equipment and \$85,200 on eligible expenses. At December 31, 2017, the Company has expended \$60,680 on eligible expenditures in excess of grant funds received and has recognized a receivable for this balance. The Company anticipates receiving the remaining \$200,000 of contributions 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 year ended December 31, 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 year ended December 31, 2017, the Company received or recorded as a receivable \$82,816 (2016 - \$261,813) which has been recorded as a reduction of research and project development expenses. The project has been completed at December 31, 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 year ended December 31, 2017, the Company received \$9,623 (2016 - \$7,594) which has been recorded as a reduction of research and development activities. The project has been completed at December 31, 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 year ended December 31, 2017, the Company received an additional \$64,196 and recognized \$57,405 as a reduction of capital expenditures and \$66,114 as a reduction of research and development expenditures. At December 31, 2017, the Company has expended \$30,986 on eligible expenditures in excess of grant funds received and has recognized a receivable for this balance. The Company anticipates receiving the remaining \$133,660 of contributions in 2018.

Related Party Transactions

During the year ended December 31, 2017, \$Nil (2016 - \$6,000) 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 year ended December 31, 2017, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling \$826,000 (2016 - \$750,000) and share-based payments expense for key management personnel was \$554,000 (2016 - \$74,000).

The amount payable to directors at December 31, 2017 was \$40,000 (2016 - \$40,000). Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities at December 31, 2017 was \$15,000 (2016 - \$150,000).

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. ("CVP") were served with a statement of claim from AVAC Ltd. alleging damages of \$724,500 pursuant to a product development agreement. The Company and CVP 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 were submitted to the presiding judge.

Subsequent to the year ended December 31, 2017, on January 19, 2018, the judge issued his written decision with respect to the claim. The judge awarded damages against Ceapro Inc. and CVP in the amount of twice its investment of \$724,500 less royalties paid, which at December 31, 2017 are \$2,364. Pre-judgement interest was also awarded on the judgement. With the rendering of the judgement, there is no longer a royalty obligation pursuant to the development agreement. The Company has recorded a current provision of \$778,636 at December 31, 2017.

(b) During the year ended December 31, 2012, although the product development agreements were only entered into by the Company's wholly-owned subsidiary, Ceapro Technology Inc. ("CTI"), AVAC Ltd. served a statement of claim against both the Company and CTI, alleging damages of \$1,470,000 pursuant to two product development agreements. The Company and CTI 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 were submitted to the presiding judge.

Subsequent to the year ended December 31, 2017, on January 19, 2018, the judge issued his written decision with respect to the claim. The judge awarded damages against CTI in the amount of \$1,215,000 plus pre-judgment interest. However, the judge did not grant judgement against the Company with respect to the CTI claim. With the rendering of the judgement, there is no longer a royalty obligation pursuant to the two development agreements. CTI has recorded a current provision of \$1,375,000 at December 31, 2017 with respect to these claims which, pursuant to financial reporting requirements, the Company is obligated to consolidate into its financial statements.

(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

While we will continue to grow our base business in cosmeceuticals through the existing distribution network, we have laid excellent groundwork to diversify our business model to get closer to the customer through the offering of high-end value final cosmeceutical products, through Juvente.

Given the significant investments made in our beta glucan and avenanthramides product portfolio and the encouraging results obtained so far, Ceapro is well poised to transition to its next phase of growth for expansion into the profitable nutraceutical sector over the next 12 months. We anticipate final data from the bioavailability study with the chemical entity beta glucan CoQ10 in the coming weeks while results with avenanthramides in exercise-induced inflammation will be disclosed on June 12, 2018.

Positive results will accelerate partnering discussions with key players in the nutraceutical industry. Additionally, we believe our unique and disruptive enabling technologies including PGX will continue to play a key role in Ceapro's success.

From a corporate perspective, we keep our "eyes and ears" open for potential accretive acquisitions and we are assessing the potential to uplist Ceapro on a stock exchange outside of Canada.

Ceapro has all the key ingredients in place for success and is poised for another solid year in 2018.

Additional Information

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

**Consolidated Financial Statements for the
Years Ended December 31, 2017 & 2016**

Ceapro Inc.

Management's Report

To the Shareholders of **Ceapro Inc.**,

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

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

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

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

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

Sincerely,

SIGNED "Gilles Gagnon"
President and Chief Executive Officer

SIGNED "Stacy Prefontaine"
Chief Financial Officer

April 17, 2018

Independent Auditor's report

Grant Thornton LLP
1701 Scotia Place 2
10060 Jasper Avenue NW
Edmonton, AB
T5J 3R8
T +1 780 422 7114
F +1 780 426 3208

To the Shareholders of
Ceapro Inc.

We have audited the accompanying consolidated financial statements of Ceapro Inc., which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, and the consolidated statements of (loss) income and comprehensive (loss) income, changes in equity and cash flows for the years ended December 31, 2017 and December 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ceapro Inc. as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

Edmonton, Canada

April 17, 2018



Chartered Professional Accountants

Financial Statements

CEAPRO INC. Consolidated Balance Sheets

	December 31, 2017	December 31, 2016
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	6,173,895	9,150,035
Trade receivables	1,246,413	566,024
Other receivables	213,512	122,411
Inventories (note 5)	1,085,388	1,183,428
Prepaid expenses and deposits	277,600	371,950
	<u>8,996,808</u>	<u>11,393,848</u>
Non-Current Assets		
Investment tax credits receivable	607,700	487,339
Deposits	87,816	90,986
Licences (note 6)	27,403	30,366
Property and equipment (note 7)	17,379,839	14,324,887
Intangible assets (note 8)	489,733	-
Goodwill (note 9)	218,606	-
Deferred tax assets (note 20)	-	64,208
	<u>18,811,097</u>	<u>14,997,786</u>
TOTAL ASSETS	<u>27,807,905</u>	<u>26,391,634</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	979,626	969,234
Current portion of long-term debt (note 10)	860,871	1,002,246
Royalty provision - Ceapro Inc. (note 12 (a))	778,636	-
Royalty provision - Ceapro Technology Inc. (note 12 (b))	1,375,000	-
Deferred revenue (note 13)	-	489,613
Current portion of CAAP loan (note 15)	72,942	72,942
	<u>4,067,075</u>	<u>2,534,035</u>
Non-Current Liabilities		
Long-term debt (note 10)	430,622	1,255,658
CAAP loan (note 15)	161,424	201,233
Deferred tax liabilities (note 20)	604,835	-
	<u>1,196,881</u>	<u>1,456,891</u>
TOTAL LIABILITIES	<u>5,263,956</u>	<u>3,990,926</u>
Equity		
Share capital (note 14 (b))	15,565,522	14,859,136
Contributed surplus (note 14 (f))	4,269,855	3,874,725
Retained earnings	2,708,572	3,666,847
	<u>22,543,949</u>	<u>22,400,708</u>
TOTAL LIABILITIES AND EQUITY	<u>27,807,905</u>	<u>26,391,634</u>

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 (Loss) and Comprehensive Income (Loss)

Year Ended December 31,	2017 \$	2016 \$
Revenue (note 16)	12,925,825	13,673,962
Cost of goods sold	5,653,707	4,321,140
Gross margin	7,272,118	9,352,822
Research and product development	1,606,332	919,121
General and administration	2,840,605	2,187,181
Sales and marketing	32,106	4,328
Finance costs (note 19)	136,560	242,862
Income from operations	2,656,515	5,999,330
Other expenses (note 18)	(929,696)	(636,053)
Royalty provision - Ceapro Inc. (note 12 (a))	(778,636)	-
Royalty provision - Ceapro Technology Inc. (note 12 (b))	(1,375,000)	-
Income (loss) before tax	(426,817)	5,363,277
Income taxes		
Current tax recovery (expense)	9,345	(421,916)
Deferred tax expense	(540,803)	(1,321,466)
Income tax expense (note 20)	(531,458)	(1,743,382)
Total comprehensive income (loss) for the period	(958,275)	3,619,895
Net income (loss) per common share (note 28):		
Basic	(0.01)	0.05
Diluted	(0.01)	0.05
Weighted average number of common shares outstanding (note 28):		
Basic	75,343,907	67,684,793
Diluted	75,343,907	71,329,178

See accompanying notes

Financial Statements

CEAPRO INC. Consolidated Statements of Changes in Equity

	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 (note 14 (d))	-	587,484	-	-	587,484
Stock options exercised (note 14 (d))	121,464	(57,432)	-	-	64,032
Warrants exercised (note 14 (c))	584,922	(134,922)	-	-	450,000
Net loss for the year	-	-	-	(958,275)	(958,275)
Balance December 31, 2017	15,565,522	4,269,855	-	2,708,572	22,543,949
Balance December 31, 2015	6,800,018	1,029,564	106,200	(59,248)	7,876,534
Issuance of common share units (note 14 (b))	7,944,661	2,055,339	-	-	10,000,000
Common share issuance costs, net of tax of \$238,621 (note 14 (b))	(1,515,413)	870,253	-	-	(645,160)
Share-based payments	-	144,958	-	-	144,958
Stock options exercised	333,999	(148,212)	-	-	185,787
Warrants exercised	335,927	(77,177)	-	-	258,750
Conversion of debentures (notes 11 & 14b)	959,944	-	(106,200)	106,200	959,944
Net income for the year	-	-	-	3,619,895	3,619,895
Balance December 31, 2016	14,859,136	3,874,725	-	3,666,847	22,400,708

See accompanying notes

Financial Statements

CEAPRO INC. Consolidated Statements of Cash Flows

Year Ended December 31,	2017 \$	2016 \$
OPERATING ACTIVITIES		
Net income (loss) for the year	(958,275)	3,619,895
Adjustments for items not involving cash		
Finance costs	20,032	37,585
Transaction costs	17,453	25,530
Depreciation and amortization	326,104	359,452
Unrealized foreign exchange loss (gain) on long-term debt	29,786	(44,315)
Accretion	44,075	129,747
Deferred tax expense	540,803	1,321,466
Share-based payments	587,484	144,958
Loss on disposal of equipment	59,119	-
Net income (loss) for the year adjusted for non-cash items	666,581	5,594,318
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(680,389)	(27,029)
Other receivables	(89,658)	1,721
Investment tax credits receivable	(120,361)	115,963
Inventories	151,958	58,989
Prepaid expenses and deposits	(30,764)	26,513
Deferred revenue	(489,613)	(682,585)
Income tax payable	-	(95,180)
Royalty provision - Ceapro Inc. (note 12 (a))	778,636	-
Royalty provision - Ceapro Technology Inc. (note 12 (b))	1,375,000	-
Accounts payable and accrued liabilities relating to operating activities	93,244	94,790
Total changes in non-cash working capital items	988,053	(506,818)
Net income (loss) for the year adjusted for non-cash and working capital items	1,654,634	5,087,500
Interest paid	(81,628)	(202,915)
CASH GENERATED FROM OPERATIONS	1,573,006	4,884,585
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,107,772)	(2,268,292)
Purchase of leasehold improvements	(910,847)	(2,575,688)
Proceeds from sale of equipment	45,000	-
Deposits relating to investment in equipment	128,284	(136,625)
Accounts payable and accrued liabilities relating to investing activities	(88,873)	(1,131,223)
Acquisition of Juvente, net of cash acquired	(646,749)	-
CASH USED BY INVESTING ACTIVITIES	(4,580,957)	(6,111,828)
FINANCING ACTIVITIES		
Issuance of common share units	-	10,000,000
Common share issuance costs	-	(883,781)
Stock options exercised	64,032	185,787
Warrants exercised	450,000	258,750
Repayment of long-term debt	(1,013,650)	(977,329)
Repayment of CAAP loan	(83,884)	(83,884)
Grant used for purchase of leaseholds, property and equipment	615,313	196,610
CASH GENERATED FROM FINANCING ACTIVITIES	31,811	8,696,153
(Decrease) increase in cash and cash equivalents	(2,976,140)	7,468,910
Cash and cash equivalents at beginning of the year	9,150,035	1,681,125
Cash and cash equivalents at end of the year	6,173,895	9,150,035

See accompanying notes

Cash and cash equivalents are comprised of \$6,167,057 (2016 - \$8,832,432) on deposit with financial institutions, \$NIL (2016 - \$310,765) restricted cash on deposit with financial institutions (see note 13), and \$6,838 (2016 - \$6,838) held in money market mutual funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Board of Directors authorized these consolidated financial statements for issue on April 17, 2018.

b) Basis for presentation

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., Ceapro USA Inc., and Juvente^{DC} Inc. On April 1, 2016, the Company completed a vertical amalgamation with its wholly-owned subsidiary Ceapro Veterinary Products Inc. Juvente^{DC} Inc. ("Juvente") was acquired on October 25, 2017 (see note 4).

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

c) Use of management critical judgements, estimates, and assumptions

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

Management critical judgements

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

Functional currency

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

Management estimates and assumptions

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

Provisions

The Company records provisions for matters where a legal or constructive obligation exists at the balance sheet date as a result of past events and if a reliable estimate can be made of the obligation. These matters might include restructuring projects, legal matters, disputed issues, indirect taxes, and other items. These obligations may not be settled for a number of years and a reliable estimate has to be made of the likely outcome of each of these matters. These provisions represent our best estimate of the costs that will be incurred, but actual experience may differ from the estimates made and therefore affect future financial results. The effects would be recognized in profit or loss.

Taxation

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

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

Investment tax credits

The recognition of investment tax credits relating to the Company's qualifying scientific research and experimental development expenditures requires management to estimate the amount and timing of recovery. The Company has assessed that it is probable that sufficient taxable income will be available to recognize the investment tax credits as recognized at December 31, 2017.

Impairment of non-financial assets and goodwill

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

Allocation of fair value of assets acquired in business combination

The determination of the fair value of assets acquired requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the assets and liabilities acquired require judgement and include estimates of future cash flows.

Inventories

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

Property and equipment

The Company provides for depreciation expense on property and equipment at rates designed to amortize the cost of individual items and their material components over their estimated useful lives. Management makes estimates of future useful life based on patterns of benefit consumption and impairments based on past experience and market conditions. Impairment losses and depreciation expenses are presented in profit or loss of the current period.

Licences

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

Royalties

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

Share-based payments

The fair value of share-based payments is determined using the Black Scholes option pricing model based on estimated fair values at the date of grant. The Black Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the award. Changes in these assumptions can significantly affect the fair value estimate. For more information, see note 14.

d) Cash and cash equivalents

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

e) Revenue recognition

Revenues are measured at the fair value of consideration received or receivable. Revenue from product sales is recognized when the products are shipped, as this is when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, the costs incurred or to be incurred can be measured reliably, and the Company maintains no continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

f) Business combinations and goodwill

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

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

Goodwill is carried at cost less accumulated impairment losses.

g) Inventories

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

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

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

h) Property and equipment

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

Manufacturing equipment	10 years straight-line
Office equipment	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	over the term of the lease

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

economic benefits are expected from its use. Any gain or loss arising on derecognition of an asset is included in profit or loss in the period the asset is derecognized.

i) Intangible assets

Acquired

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

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

Brands	10 years
Formulations	10 years
Website	3 years

Licences

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

Research and product development expenditures

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

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) its intention to complete the intangible asset and use or sell it;
- (c) its ability to use or sell the intangible asset;
- (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (e) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset;
- (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

j) Borrowing costs

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

k) Impairment of non-financial assets and goodwill

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

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

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

l) Leases

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

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

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

m) Foreign currency translation

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

Foreign currency monetary assets and liabilities of the Company and its subsidiaries are translated using the period end closing rate; and non-monetary assets and liabilities, measured at historic cost, are translated at the rate of exchange at the date of the transaction. Foreign currency transactions are translated at the spot exchange rate which is in effect at the date of the

transaction. Foreign currency gains or losses arising on translation are included in other operating income (loss) in profit or loss.

n) Income taxes

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

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

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

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

o) Government grants

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

p) Investment tax credits

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

q) Convertible debentures

The convertible debentures have been separated into liability and equity components for accounting purposes based on the residual value method, whereby the fair value of the liability component is measured first with the residual value being allocated to the conversion feature. The fair value of the liability component is measured using a discount rate for a similar financial instrument without the conversion feature. The liability component is subsequently measured at amortized cost using the effective interest rate method and will accrete up to the principal balance at maturity.

r) Income (loss) per common share

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

convertible debentures are converted using the “if converted” method. When the Company is in a net loss position, the conversion of convertible securities is considered to be anti-dilutive.

s) Share-based payment arrangements

Stock option plan

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

Restricted share unit plan

During the year ended December 31, 2017, the Company adopted a restricted share unit plan (“RSU plan”) which provides for the grant of restricted share units (“RSUs”). The obligations under the RSU plan can be settled at the Company’s discretion through either cash or the issuance of common shares. The Company measures the cost of equity-settled share-based arrangements using the fair value method, whereby compensation expense related to the granting of RSUs is recorded in profit or loss with a corresponding increase to contributed surplus. The Company measures the value of RSUs by reference to the fair value at the grant date, which is usually represented by the quoted closing price of the Company’s stock on the TSX-V exchange on the trading day immediately preceding the date of grant. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates estimated forfeitures will change.

t) Provisions

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

u) Financial Instruments

All financial instruments are measured at initial recognition at fair value plus any transaction costs that are directly attributable to the acquisition of the financial instruments except for transaction costs related to financial instruments classified as at fair value through profit or loss (“FVTPL”) which are expensed as incurred. The Company has designated its financial instruments as follows:

- i) Cash and cash equivalents and trade and other receivables have been classified as loans and receivables and are measured at amortized cost using the effective interest method, less any provision for impairment. The Company recognizes purchase or sale of financial assets using trade date accounting.
- ii) Accounts payable and accrued liabilities, long-term debt, convertible debentures, and the CAAP loan are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

Except for financial assets at fair value through profit or loss, financial assets are assessed for indicators of impairment at the end of each reporting period. A provision for impairment of trade receivables is established when there is objective evidence that the Company may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss within operating costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating costs in profit or loss.

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 does not expect any material impact from the adoption of IFRS 15 on these consolidated financial statements.

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. BUSINESS COMBINATION

On October 25, 2017, the Company completed an acquisition of all of the issued and outstanding shares of Juvente^{DC} Inc. ("Juvente"), 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 of Juvente was made to execute on a strategic market diversification strategy, to expand our product portfolio with the development of formulations that utilize our two value drivers, beta glucan and avenanthramides, and to enable us to enter into the high-end cosmeceuticals market and market directly to the end-user.

Acquisition related costs amounting to \$19,000 have been included in general and administration expense.

Juvente's revenue and net loss from the date of acquisition to December 31, 2017 was \$2,870 and \$69,600 respectively. Due to lack of IFRS specific data prior to the acquisition of Juvente, pro-forma profit or loss of the combined entity for any periods prior to acquisition cannot be determined reliably.

The total consideration transferred, and the fair value of identifiable assets acquired, liabilities assumed, and goodwill recognized, as a result of the acquisition, are as follows:

Fair value of consideration transferred	\$
Cash	650,000
Cash acquired	(3,251)
	<u>646,749</u>

Fair value of identifiable assets acquired	
Other receivables	1,443
Inventory	53,918
Property and equipment	7,443
Website	39,600
Formulations	285,000
Brand	175,000
	<u>562,404</u>

Less fair value of liabilities assumed	
Accounts payable and accrued liabilities	(6,021)
Deferred tax liabilities	(128,240)
	<u>(134,261)</u>

Net identifiable assets acquired and liabilities assumed	
	<u>428,143</u>

Goodwill	
	<u>218,606</u>

The goodwill recognized on the acquisition of Juvente represents expected operational synergies and includes intangible assets that do not qualify for separate recognition.

The goodwill recognized is not deductible for income tax purposes.

5. INVENTORIES

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

	December 31, 2017	December 31, 2016
	\$	\$
Raw materials	839,734	337,491
Work in progress	65,992	269,077
Finished goods	179,662	576,860
	<u>1,085,388</u>	<u>1,183,428</u>

Inventories expensed to cost of goods sold during the year ended December 31, 2017 are \$5,509,950 (December 31, 2016 - \$4,195,127).

During the year ended December 31, 2017, the Company decreased the carrying value of inventory by \$29,561 (2016 - \$16,891) due to estimated realizable values from certain finished goods being lower than cost. The write-down is included in cost of goods sold.

6. 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 23 (b)).

During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of \$44,439 to cover previous patent costs and commenced amortizing the licence over 15 years, in April 2012. Amortization of \$2,963 has been included in general and administration for the year ended December 31, 2017 (December 31, 2016 - \$2,963) (see note 23 (a)).

Cost of licences	\$
Balance - December 31, 2015	44,439
Additions	-
Balance - December 31, 2016	44,439
Additions	-
Balance - December 31, 2017	44,439
Accumulated amortization	
Balance - December 31, 2015	11,110
Amortization	2,963
Balance - December 31, 2016	14,073
Amortization	2,963
Balance - December 31, 2017	17,036
Net book value	
Balance - December 31, 2017	27,403
Balance - December 31, 2016	30,366

7. PROPERTY AND EQUIPMENT

	Equipment not available for use	Manufacturing Equipment	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Cost	\$	\$	\$	\$	\$	\$
December 31, 2015	3,237,230	3,729,253	305,446	401,396	5,328,120	13,001,445
Additions	1,914,589	437,522	1,880	16,369	2,638,950	5,009,310
Cost reduced by grant	-	(36,610)	-	-	(160,000)	(196,610)
Disposal	-	-	-	-	-	-
December 31, 2016	5,151,819	4,130,165	307,326	417,765	7,807,070	17,814,145
Additions	2,954,101	205,649	1,286	12,376	914,246	4,087,658
Cost reduced by grant	(557,908)	(57,405)	-	-	-	(615,313)
Disposal	(104,119)	-	-	-	-	(104,119)
December 31, 2017	7,443,893	4,278,409	308,612	430,141	8,721,316	21,182,371
Accumulated Depreciation						
December 31, 2015	-	2,512,970	119,826	301,357	198,616	3,132,769
Additions	-	242,134	37,352	31,765	45,238	356,489
Disposal	-	-	-	-	-	-
December 31, 2016	-	2,755,104	157,178	333,122	243,854	3,489,258
Additions	-	211,611	30,073	27,154	44,436	313,274
Disposal	-	-	-	-	-	-
December 31, 2017	-	2,966,715	187,251	360,276	288,290	3,802,532
Carrying Value						
December 31, 2017	7,443,893	1,311,694	121,361	69,865	8,433,026	17,379,839
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
	\$	\$	\$	\$
Year Ended December 31, 2017	176,028	6,263	130,983	313,274
Year Ended December 31, 2016	162,925	54,870	138,694	356,489

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 December 31, 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 phase.

Included in the additions for equipment not available for use are capitalized borrowing costs of \$61,597 (2016 - \$102,068) and capitalized employee salaries and benefits of \$330,096 (2016 - \$307,004) arising directly from the installation and related construction and commissioning of the new manufacturing equipment and production process. Included in leasehold improvement additions are capitalized borrowing costs of \$NIL (2016 - \$63,262) and capitalized employee salaries and benefits of \$NIL (2016 - \$49,620) arising directly from the construction of the new manufacturing facility. The borrowing costs have been capitalized at the rates of the specific borrowings ranging between 2.85% and 8%.

8. INTANGIBLE ASSETS

Cost	Formulations	Brand	Website	Total
	\$	\$	\$	\$
December 31, 2016	-	-	-	-
Additions	285,000	175,000	39,600	499,600
Disposals	-	-	-	-
December 31, 2017	285,000	175,000	39,600	499,600
Accumulated Amortization				
December 31, 2016	-	-	-	-
Additions	4,750	2,917	2,200	9,867
Impairment losses	-	-	-	-
December 31, 2017	4,750	2,917	2,200	9,867
Net Book Value				
December 31, 2017	280,250	172,083	37,400	489,733
December 31, 2016	-	-	-	-

The Company's intangible assets consist of identifiable intangible assets acquired in a business combination (see note 4). Amortization of \$9,867 (2016 – \$NIL) has been included in general and administration expense.

9. GOODWILL

	December 31, 2017 \$
Balance at beginning of the year	-
Juvente acquisition (note 4)	218,606
Balance at end of the year	218,606

Goodwill of \$218,606 arose from the acquisition of Juvente^{DC} Inc. and has been allocated to that CGU (see note 4).

The recoverable amount of goodwill was determined based on value in use calculations, covering a five-year forecast, based on estimated growth rates for revenue and financial budgets and forecasts approved by management. The present value of the expected cash flows is determined using a risk adjusted discount rate of 22.5%.

Management's key assumptions to cash flow forecasting include greater than 30% annual increases in revenue from anticipated marketing campaigns and high gross margins based on the industry segment that the segment operates in. The revenue growth rates and discount rate are the key assumptions in the calculation of value in use.

10. LONG-TERM DEBT

	December 31, 2017 \$	December 31, 2016 \$
Loan payable secured by a general security agreement, due January, 2018 (a).	14,835	212,254
Loan payable secured by certain intellectual property, due January, 2019 (b).	344,546	614,970
Loan payable secured by a general security agreement, due April, 2019 (c).	459,973	787,242
Loan payable secured by a forklift, due June, 2018 (d).	5,803	19,139
Loan payable secured by a general security agreement, due July, 2020 (e).	487,313	662,729
Transaction costs	(20,977)	(38,430)
	1,291,493	2,257,904
Less current portion	860,871	1,002,246
	430,622	1,255,658

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

Year Ended December 31, 2017	20,032
Year Ended December 31, 2016	37,585

(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 10(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 December 31, 2017, the loan balance was 228,904 (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 December 31, 2017, the monthly payment is \$26,946 (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 10(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 10(b).

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

11. CONVERTIBLE DEBENTURES

During the year ended December 31, 2015, the Company issued an aggregate of \$960,000 of unsecured convertible debentures that would mature on December 31, 2016.

The debentures bore interest at 8% per annum with interest payable on June 30 and December 31 of each year. The debentures were convertible into common shares of the Company at any time at a price of \$0.64 per common share at the option of the holder and were redeemable at the option of the Company upon giving notice of 60 days. The debentures and any common shares issued upon conversion of the convertible debentures were subject to a four-month hold period from the date of issue.

During the year ended December 31, 2016, all holders of the convertible debentures elected to convert their debentures into common shares at maturity. Debenture principal of \$959,944 was converted into 1,499,911 common shares of the Company (see note 14 (b)) and \$56 was paid out in cash on conversion. On extinguishment of the convertible debenture liability, the equity component of \$106,200 was transferred on the Statement of Equity to retained earnings.

The following table summarizes the accounting for the convertible debentures:

	Liability Component \$	Equity Component \$
December 31, 2015	872,355	106,200
Amortization of transaction costs	7,486	-
Accretion of discount on the convertible debentures	80,159	-
Conversion of debentures	(960,000)	(106,200)
December 31, 2016	-	-
December 31, 2017	-	-

12. ROYALTY PROVISION

- a) In the year ended December 31, 2005, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. (CVP), received a commitment for financial assistance totaling \$362,250 for product innovation development in the area of Veterinary Therapeutics and Active Ingredients. The Company and CVP were obligated to pay a 2.5% royalty to a maximum of \$75,000 per quarter (to a maximum of two times the financial assistance received or \$724,500) on sales generated from products developed using these funds. The portion of the obligation accrued and paid at December 31, 2017 was \$2,364 (2016 - \$2,040). The potential amount payable per the agreement as at December 31, 2017 is \$722,136 (2016 - \$722,460).

During the year ended December 31, 2011, the Company and CVP were served with a statement of claim from AVAC Ltd. alleging damages of \$724,500 pursuant to the product development agreement. The Company and CVP 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 were submitted to the presiding judge.

Subsequent to the year ended December 31, 2017, on January 19, 2018, the judge issued his written decision with respect to the claim. The judge awarded damages against Ceapro Inc. and CVP in the amount of twice its investment of \$724,500 less royalties paid, which at December 31, 2017 is \$2,364. Pre-judgement interest was also awarded on the judgement. With the rendering of the judgement, there is no longer a royalty obligation pursuant to the development agreement. The Company has recorded a current provision of \$778,636 at December 31, 2017.

- b) In the year ended December 31, 2004, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling \$250,000 for pre-market activities of CeaProve[®] (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. \$225,000 of this commitment was received and the remaining \$25,000 was decommitted. CTI was obligated to pay a royalty (to a maximum of two times the financial assistance received) on sales generated from CeaProve[®] on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. No royalties have been paid or accrued during the current or prior years. CTI has repaid at December 31, 2017 \$nil (2016 - \$nil) of this obligation. The potential amount payable per agreement as at December 31, 2017 is \$450,000 (2016 - \$450,000).

In the year ended December 31, 2005, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling \$800,000 for pre-market activities of CeaProve[®] (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. \$510,000 of this commitment was received and the remaining \$290,000 was decommitted. CTI is obligated to pay a royalty (to a maximum of one and a half times the financial assistance received or \$765,000) on sales of CeaProve[®] on the following basis: 0% of net sales and net sub-licensing revenues earned until royalty payments have been fully satisfied under the 2004 investment agreement and 5% thereafter until repaid to a maximum of \$125,000 per quarter. No royalties have been incurred during the current year. The portion of this obligation paid or accrued as at December 31, 2017 was \$nil (2016 - \$nil). The potential amount payable per agreement as at December 31, 2017 is \$765,000 (2016- \$765,000).

During the year ended December 31, 2012, although the product development agreements were only entered into by CTI, AVAC Ltd. served a statement of claim against both the Company and its wholly-owned subsidiary, CTI, alleging damages of \$1,470,000 pursuant to the two product development agreements. The Company and CTI 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 were submitted to the presiding judge.

Subsequent to the year ended December 31, 2017, on January 19, 2018, the judge issued his written decision with respect to the claim. The judge awarded damages against CTI in the amount \$1,215,000 plus pre-judgement interest. However, the judge did not grant judgement against the Company with respect to the CTI claims. With the rendering of the judgement, there is no longer a royalty obligation pursuant to the two development agreements. CTI has recorded a current provision of \$1,375,000 at December 31, 2017 with respect to these claims which, pursuant to financial reporting requirements, the Company is obligated to consolidate into these financial statements.

13. 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. The balance of grants received of \$282,428 at December 31, 2016 were restricted for eligible project expenditures which had not yet been incurred; therefore, the balance was presented as deferred revenue. During the year ended December 31, 2017, the Company received an additional \$300,000 in grant funds and expended \$557,908 on eligible equipment and \$85,200 on eligible expenses. At December 31, 2017, the Company has expended \$60,680 on eligible expenditures in excess of grant funds received and has recognized a receivable for this balance.

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 of the restricted cash on eligible expenses and equipment. The balance of grants received of \$28,337 at December 31, 2016 were restricted for eligible project expenditures which had not yet been incurred; therefore, the balance was presented as deferred revenue. During the year ended December 31, 2017, the Company received an additional \$64,196 and expended \$57,405 on eligible equipment and \$66,114 on eligible expenses. At December 31, 2017, the Company has expended \$30,986 on eligible expenditures in excess of grant funds received and has recognized a receivable for this balance.

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

14. SHARE CAPITAL

- a. Authorized
 - i. Unlimited number of Class A voting common shares. Class A common shares have no par value.
 - ii. Unlimited number of Class B non-voting common shares. There are no issued Class B shares.

b. Issued - Class A common shares

	Year Ended December 31, 2017		Year Ended December 31, 2016	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance at beginning of the year	74,872,225	14,859,136	62,490,821	6,800,018
Stock options exercised	374,634	121,464	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 year	75,546,859	15,565,522	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. This non-cash transaction has been excluded from the Statement of Cash Flows.

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 (see note 11). This non-cash transaction has been excluded from the Statement of Cash Flows.

c. Warrants

The following table summarizes the continuity of warrants:

	Year Ended December 31, 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 year	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 year	4,904,857	1.44	5,204,857	1.44

The following table summarizes information about warrants outstanding:

Exercise Price \$	Expiry Date	December 31, 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 year ended December 31, 2017, the Company granted 500,000 (December 31, 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 1.77% (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 \$1.53 (2016 – \$0.42), the weighted average exercise price was \$1.53 (2016 – \$0.42), and the expected dividends were nil (2016 - nil). The weighted average grant date fair value of options granted in the year ended December 31, 2017 was \$1.44 (2016 - \$0.28) per option.

The share-based payments expense recorded during the current year relating to options granted in 2017, 2016, and 2015 was \$587,484 (during 2016 relating to options granted in 2016, 2015, and 2014 - \$144,958).

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

	Year Ended December 31, 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 year	2,263,302	0.36	3,446,667	0.28
Granted	500,000	1.53	160,000	0.42
Exercised	(374,634)	0.17	(1,275,031)	0.15
Forfeited	-	-	(68,334)	0.46
Outstanding at end of year	2,388,668	0.63	2,263,302	0.36
Exercisable at end of year	2,055,334	0.49	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)	December 31, 2017 Number of Options	December 31, 2016 Number of Options
0.56	0.59	2027	9.8	90,000	-
1.22	1.30	2027	9.3	10,000	-
1.65	1.75	2027	9.0	400,000	-
0.25	0.27	2025	7.6	-	3,334
0.25	0.27	2025	7.5	3,334	3,334
0.34	0.36	2025	7.3	150,000	150,000
0.47	0.50	2025	7.1	100,000	100,000
0.60	0.64	2025	7.0	765,334	811,634
0.37	0.27	2024	6.9	150,000	150,000
0.13	0.14	2024	6.4	25,000	50,000
0.08	0.10	2024	6	300,000	425,000
0.05	0.10	2023	5.0	295,000	310,000
0.09	0.10	2022	4.5	-	160,000
0.22	0.44	2018	0.2	100,000	100,000
			6.8	2,388,668	2,263,302

f. Contributed surplus

	Year Ended December 31, 2017 \$	Year Ended December 31, 2016 \$
Balance at beginning of the year	3,874,725	1,029,564
Issuance of common share units (note 14 (b))	-	2,055,339
Common share issuance costs (note 14 (b))	-	870,253
Share-based payments (note 14 (d))	587,484	144,958
Stock options exercised	(57,432)	(148,212)
Warrants exercised	(134,922)	(77,177)
Balance at end of the year	4,269,855	3,874,725

15. CAAP LOAN

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

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

The balance of repayable contribution is derived as follows:

Year Ended December 31,	2017 \$	2016 \$
Opening balance	274,175	308,471
Repayment	(83,884)	(83,884)
Accretion of CAAP loan	44,075	49,588
	234,366	274,175
Less current portion	72,942	72,942
	161,424	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.

16. REVENUE

During the year ended December 31, 2017, the Company had export sales to one major distributor of the Company's products in the aggregate amount of \$11,986,039 representing 93% of total revenue (2016 – \$12,163,108 (89%)). This major distributor sells to dozens of customers on a worldwide basis.

17. RELATED PARTY TRANSACTIONS

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

Year Ended December 31,	2017 \$	2016 \$
Interest earned on convertible debentures held by a company controlled by an officer and by a close family member of a director	-	6,000
Key management salaries, short-term benefits, consulting fees, and director fees	825,930	750,221
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	15,000	150,000
Key management personnel share-based payments	553,978	74,277
Amount payable to directors	39,803	39,829

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.

18. OTHER EXPENSES

Year ended December 31,	2017 \$	2016 \$
Foreign exchange loss	132,485	6,753
Other (income) expense	(3,243)	9,617
Quality management system	82,410	47,309
Plant relocation costs	658,925	572,374
Loss on disposal of equipment	59,119	-
	929,696	636,053

19. FINANCE COSTS

Year Ended December 31,	2017 \$	2016 \$
Interest on long-term debt	20,032	37,585
Transaction costs	17,453	25,530
Royalties	55,000	50,000
Accretion of CAAP loan	44,075	49,588
Accretion of convertible debentures	-	80,159
	136,560	242,862

20. INCOME TAXES

(a) Income tax expense

Components of income tax expense are:

	December 31, 2017 \$	December 31, 2016 \$
Current tax expense	(9,345)	421,916
Deferred tax expense		
Origination and reversal of temporary differences	48,008	1,068,834
Change in unrecognized deductible temporary differences	392,337	82,550
Prior period adjustments	100,458	170,082
Income tax expense	531,458	1,743,382

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined Federal and Provincial corporate tax rates to income before tax. These differences result from the following:

	December 31, 2017 \$	December 31, 2016 \$
Income (loss) before tax	(426,817)	5,363,277
Statutory income tax rate	27.00%	27.00%
Expected income tax (recovery)	(115,241)	1,448,085
Increase (decrease) resulting from:		
Non taxable items	160,336	121,899
Change in unrecognized deductible temporary differences	392,337	3,316
Change in tax rates and rate differences	2,913	-
Prior period adjustments	91,113	170,082
Income tax expense	531,458	1,743,382

(b) Recognized deferred tax assets and liabilities

	December 31, 2017 \$	December 31, 2016 \$
Deferred tax assets are attributable to the following:		
Deferred revenue	-	7,651
Finance costs	1,846	2,769
Patents	185,129	196,923
Cumulative eligible capital	74,332	79,864
Other	3,790	8,610
Share issuance costs	143,173	190,897
Royalty provision	210,232	-
Non-capital losses	459,372	419,954
Deferred tax assets	1,077,874	906,668
Offset by deferred tax liabilities	(1,077,874)	(842,460)
Net deferred tax asset	-	64,208
Deferred tax liabilities are attributable to the following:		
Property and equipment	(1,353,475)	(654,485)
Intangibles	(122,130)	-
CAAP loan and long-term debt	(39,053)	(56,393)
Inventory	(3,972)	-
SRED investment tax credits	(164,079)	(131,582)
Deferred tax liabilities	(1,682,709)	(842,460)
Offset by deferred tax assets	1,077,874	842,460
Net deferred tax liability	(604,835)	-

(c) Unrecognized deferred tax assets

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

	December 31, 2017 \$	December 31, 2016 \$
Deductible temporary differences	1,754,610	479,075
Tax losses	13,700,992	13,298,015
	15,455,602	13,777,090

The non-capital loss carryforwards expire between 2026 and 2037. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

(d) Movement in deferred tax balances

	December 31, 2016 \$	Recognized in Profit and (Loss)	Acquired in Business Combination	December 31, 2017 \$
Deferred revenue	7,651	(7,651)	-	-
Finance costs	2,769	(923)	-	1,846
Patents	196,922	(11,794)	-	185,128
Cumulative eligible capital	79,865	(5,532)	-	74,333
Other	8,610	(4,820)	-	3,790
Share issuance costs	190,897	(47,724)	-	143,173
Non-capital losses	419,954	39,418	-	459,372
Property and equipment	(654,485)	(698,990)	-	(1,353,475)
CAAP loan and long-term debt	(56,393)	17,340	-	(39,053)
Royalty provision	-	210,232	-	210,232
Inventory	-	68	(4,040)	(3,972)
Intangibles	-	2,070	(124,200)	(122,130)
SRED ITC's	(131,582)	(32,497)	-	(164,079)
	64,208	(540,803)	(128,240)	(604,835)

	December 31, 2015 \$	Recognized in Profit and (Loss)	Recognized Directly in Equity	December 31, 2016 \$
Deferred revenue	87,136	(79,485)	-	7,651
Finance costs	15,001	(12,232)	-	2,769
Patents	194,422	2,500	-	196,922
Cumulative eligible capital	85,876	(6,011)	-	79,865
Other	22,014	(13,404)	-	8,610
Share issuance costs	-	(47,723)	238,620	190,897
Non-capital losses	1,206,167	(786,213)	-	419,954
Property and equipment	(197,533)	(456,952)	-	(654,485)
Convertible debenture	(23,664)	23,664	-	-
CAAP loan	(52,608)	13,389	-	(39,219)
Long-term debt	-	(17,174)	-	(17,174)
SRED ITC's	(189,758)	58,176	-	(131,582)
	1,147,053	(1,321,465)	238,620	64,208

21. SEGMENTED INFORMATION

The Company only has one reportable operating segment, being the operations relating to 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:

Year Ended December 31,	2017 \$	2016 \$
United States	10,376,700	8,561,265
Germany	1,985,143	4,548,205
China	479,826	357,164
Other	70,474	167,980
Canada	13,682	39,348
	12,925,825	13,673,962

22. EMPLOYEE BENEFITS

Year Ended December 31,	2017 \$	2016 \$
Employee benefits	3,506,561	2,653,917

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

23. COMMITMENTS

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

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

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

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

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

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

- (a) a royalty of 3.5% of net sales generated from the field of pharmaceuticals;
- (b) a royalty of 3.0% of net sales generated from the field of nutraceuticals;
- (c) a royalty of 2.75% of net sales generated from the field of cosmetics;
- (d) a royalty of 1.0% of net sales generated from the field of functional foods;
- (e) a royalty of 3.0% of net sales generated from other fields.

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

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

24. OPERATING LEASES

The Company incurred \$973,363 in 2017 (2016 - \$945,103) under rental operating leases. These amounts were recorded as follows: general and administration expenses of \$91,491 (2016 - \$88,004), research and development expenses of \$33,298 (2016 - \$33,442), cost of goods sold of \$249,673 (2016 - \$273,808), and other operating loss of \$598,901 (2016 - \$549,849).

The Company is committed to future annual payments under operating leases for manufacturing facilities, office space, and warehouse. Total lease commitments exclusive of operating costs from January 1, 2018 to March 31, 2025 are disclosed in the table below:

	0 - 1 year \$	2 - 5 years \$	6 - 8 years \$	Total \$
Manufacturing facility and office leases	354,440	1,358,267	814,034	2,526,741
Warehouse	65,487	170,265	-	235,752
Total	419,927	1,528,532	814,034	2,762,493

25. FINANCIAL INSTRUMENTS

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

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

- Level 3: unobservable inputs for the asset or liability

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

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

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

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

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

	December 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Loans and receivables:				
Cash and cash equivalents	\$ 6,173,895	\$ 6,173,895	\$ 9,150,035	\$ 9,150,035
Trade and other receivables	1,459,925	1,459,925	688,435	688,435
Other financial liabilities:				
Accounts payable and accrued liabilities	\$ 979,626	\$ 979,626	\$ 969,234	\$ 969,234
Long-term debt	1,291,493	1,291,493	2,257,904	2,257,904
CAAP loan	234,366	234,366	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 93% of trade receivables are due from one distributor at December 31, 2017 (December 31, 2016 – 86% from two distributors) and all trade receivables at December 31, 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 counterparties.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$6,173,895 at December 31, 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	979,626	-	-	-	979,626
Long-term debt	897,053	457,537	-	-	1,354,590
CAAP loan	83,884	167,767	83,884	-	335,535
Total	1,960,563	625,304	83,884	-	2,669,751

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	993,433	9,934	(9,934)
Financial liabilities			
Accounts payable and accrued liabilities	271,662	(2,717)	2,717
Total increase (decrease)		7,218	(7,218)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial liabilities			
Long-term debt	228,904	(2,289)	2,289
Total (decrease) increase		(2,289)	2,289

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 December 31, 2017.

2. Interest rate risk

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

26. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the year ended December 31, 2017.

27. GRANT FUNDING

a) The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of \$1,339,625 receivable over the years from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to \$671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended one year to September 30, 2013. All amounts claimed under the program are repayable interest free over eight years beginning in 2014. The Company received or recorded as receivable funding of \$671,068 to December 31, 2013 under this program and no further funds are expected (see note 15).

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 was recorded as a reduction of capitalized expenditures. The project was completed during the year ended 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 year ended December 31, 2017, the Company received a final payment of \$19,800 (2016 - \$89,100). An amount of \$19,800 (2016 - \$89,100) was expended on the research project. The project has been completed at December 31, 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, 2017, the Company received or recorded as a receivable \$NIL (2016 - \$5,791) which has been recorded as a reduction of research and development activities. The project was completed during the year ended 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 year ended December 31, 2017, the Company received an additional \$300,000 and recognized \$557,908 on eligible equipment and \$85,200 on eligible expenses. At December 31, 2017, the Company has expended \$60,680 on eligible expenditures in excess of grant funds received and has recognized a receivable for this balance. The Company anticipates receiving the remaining \$200,000 of contributions 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 year ended December 31, 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 year ended December 31, 2017, the Company received or recorded as a receivable \$82,816 (2016 - \$261,813) which has been recorded as a reduction of research and project development expenses. The project has been completed at December 31, 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 year ended December 31, 2017, the Company received \$9,623 (2016 - \$7,594) which has been recorded as a reduction of research and development activities. The project has been completed at December 31, 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 year ended December 31, 2017, the Company received an additional \$64,196 and recognized \$57,405 as a reduction of capital expenditures and \$66,114 as a reduction of research and development expenditures. At December 31, 2017, the Company has expended \$30,986 on eligible expenditures in excess of grant funds received and has recognized a receivable for this balance. The Company anticipates receiving the remaining \$133,660 of contributions in 2018.

28. INCOME (LOSS) PER COMMON SHARE

Year Ended December 31,	2017	2016
Net income (loss) for the year for basic and diluted earnings per share calculation	(\$958,275)	\$3,619,895
Weighted average number of common shares outstanding	75,343,907	67,684,793
Effect of dilutive stock options and warrants	-	2,192,285
Effect of dilutive convertible debentures	-	1,452,100
Diluted weighted average number of common shares	75,343,907	71,329,178
Income (loss) per share - basic	(\$0.01)	\$0.05
Income (loss) per share - diluted	(\$0.01)	\$0.05

As the Company was in a net loss position for the year ended December 31, 2017, the impact of the conversion of convertible securities is anti-dilutive.

For the year ended December 31, 2016, 4,716,980 warrants outstanding have not been included in the diluted income per share calculation because the warrants exercise price were greater than the average market price of the common shares during the year. 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.

29. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Long-term debt \$	CAAP loan \$	Total \$
Balance January 1, 2017	2,257,904	274,175	2,532,079
Repayments	(1,013,650)	(83,884)	(1,097,534)
Foreign exchange translation	29,786	-	29,786
Amortization of transaction costs	17,453	-	17,453
Accretion	-	44,075	44,075
Balance December 31, 2017	1,291,493	234,366	1,525,859

	Long-term debt \$	CAAP loan \$	Total \$
Balance January 1, 2016	3,261,504	308,471	3,569,975
Repayments	(977,329)	(83,884)	(1,061,213)
Foreign exchange translation	(44,315)	-	(44,315)
Amortization of transaction costs	18,044	-	18,044
Accretion	-	49,588	49,588
Balance December 31, 2016	2,257,904	274,175	2,532,079

30. SUBSEQUENT EVENTS

- a) Subsequent to the year-end, the Company granted 210,000 stock options to employees and an officer of the Company. The stock options have an exercise price of \$0.50 per common share and expire in 10 years.
- b) Subsequent to the year-end, the Company granted 210,000 restricted share units to employees and officers of the Company. The restricted share unit awards vested immediately and were converted into 210,000 common shares of the Company.
- c) Subsequent to the year-end, the Company has signed a long-term Master Service Agreement with the prestigious Montreal Heart Institute (MHI). While the agreement will consist of multiple projects, it is expected that the first clinical study will assess Ceapro's beta-glucan as a cholesterol-lowering agent in a multicenter, randomized, double-blind, placebo-controlled clinical trial (pending review and approval of the protocol by Health Canada).