CEAPRO
Nature Enhancing Life®

TSXV: CZO

Annual Report 2018

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CEAPRO
Nature Enhancing Life®

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

Letter to Shareholders

Dear Fellow Shareholders

With pride, 2018 can be qualified as a year of acknowledgement and recognition of Ceapro's dedication to Innovation. As our de-risked base business model through the offering of active ingredients to the cosmeceuticals market has enabled us to maintain a very healthy balance sheet, we pursued the transition of Ceapro's business model from a contract manufacturer (CMO) to a biopharmaceutical company. While this requires significant investment in Research and Development (R&D), we are thrilled with the following tremendous advancements that marked the year 2018:

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

  1. **Beta glucan:**
     - Successfully produced clinical batches of pharmaceutical grade tablets for the assessment of beta glucan as a cholesterol reducer. A clinical protocol was approved by Health Canada and a pilot trial has started with the prestigious Montreal Heart Institute. This is the first clinical trial in Ceapro's history with a proprietary pharmaceutical grade product.
     - Demonstrated bioavailability in a dose-dependent manner of a new water-soluble chemical complex of oat beta glucan impregnated with well-known energy booster Co-enzyme Q10 (CoQ10-iBG). This stable new chemical complex has been incorporated in a newly developed energy drink whereby beta glucan acts as a delivery system for Co-enzyme Q10 (CoQ10). The CoQ10-iBG complex which can also be incorporated into cosmeceutical formulations received the 2018 Award for "Most Innovative Raw Material" at Cosmetics 360 Salon in Paris.

  2. **Avenanthramides:**
     - Completed a bio-efficacy study with University of Minnesota researchers using and assessing the effects of Ceapro's highly concentrated powder formulation of avenanthramides in exercise-induced inflammation. Positive results on the anti-inflammatory properties of avenanthramides were reported at the Nutrition 2018 Conference held in Boston and we are excited that results on the immunoregulatory mechanism of action of avenanthramides will be presented on May 31, 2019 at the Worldwide Sports Medicine Conference to be held in Orlando.

  3. **New Chemical Complexes:**
     - Developed and presented several new PGX-dried chemical complexes like CoQ10-iBG, sodium alginate, and gum arabic impregnated with CoQ10 (CoQ10-iGA) confirming the versatility of the Pressurized Gas eXpanded Technology (PGX) and the potential to develop significant bioactive delivery systems.

4. **Technology:**

    - Our engineering team has successfully advanced the Technical Readiness Level (TRL) of Ceapro's game-changing PGX Technology reaching demo scale and performed the groundwork necessary to integrate the system in large commercial scale. The technology was granted Patent in Europe, and subsequent to year-end, in India. A research project on the development of novel separation membranes for dehydration of ethanol was successfully completed in collaboration with two German Fraunhofer Institutes, a German Company (Junghans) and the University of Alberta. The technology was presented at international conferences and six scientific articles were published in peer reviewed journals along with researchers from University of Alberta and McMaster University.

- **Bioprocessing Operations:** while overcoming various challenges usually encountered during final phases of commissioning of a new plant, our dedicated production team kept the base business "running as usual" by producing approximately 180 metric tons of active ingredients to respond to market demand as well as to comply with strict requirements from major customers for the maintenance of high inventory levels during the transition period to our new manufacturing site. We were excited to announce certifications obtained following successful audits from key major customers for the new Edmonton-based facility which fully complies with recognized international quality systems. First orders were shipped from our new Edmonton Plant in December 2018.

- **Marketing and Sales:** as we wish to get closer to the end-user, we have hired a Director of Marketing and Sales and have started to sell both active ingredients and finished cosmeceutical formulations directly from our start up Juvente^{DC}. Given efficacy results seen with this line of finished products, we expect to exploit this more towards the development of delivery systems composed of our new proprietary chemical complexes like CoQ10-iBG and others.

- **Financial:** while we booked the highest quarterly sales in the history of Ceapro in the fourth quarter of 2018, we reported slightly lower annual sales compared to 2017 primarily due to a decline in sales of avenanthramides. Our fundamentals are solid with financials showing positive working capital and a very healthy balance sheet with significantly reduced liabilities compared to 2017. The settlement of royalty provisions made for AVAC has been completed. Full financial results and explanations are contained in our year-end Financial Statements and accompanying MD&A.

In summary, we are very pleased with 2018 key achievements and initiatives which we fully credit to our remarkable team.

Moving forward, we will continue to leverage our cosmeceuticals base business allowing the Company to pursue the transition to a new business model from a contract manufacturer to a biopharmaceutical company involved in nutraceuticals and pharmaceuticals. As part of new product development, the Company will develop formulations potentially allowing delivery of bioactives through different modes of administration, including oral, topical, sub-lingual, and intranasally. The Juvente line of products will mostly be used for the development of topical/transdermal delivery systems using Ceapro's proprietary new chemical complexes developed leveraging our game changing PGX technology.

We will deploy strategic efforts to expand and optimize our sales through our distribution network and mostly through direct marketing and sales activities. We will also increase our activities in business development for out-licensing of selective Ceapro products.

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

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

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

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

April 9, 2019

Unique Enabling Technologies and Bioprocessing Expertise

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

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

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

Extraction Fractionation Process

This is the current process whereby active ingredients are extracted from an ethanol phase, the resulting liquid formulation being the basis for subsequent development of solid formulations. In order to penetrate the large potential nutraceutical and pharmaceutical markets, we needed to produce large quantities through improved processes. Validation trials conducted in a new manufacturing facility in South Edmonton showed excellent results from the use of innovative semi continuous processes as compared to previous single batch processes. Following audits conducted by major customers in 2018, we are thrilled to report that the new site has been certified according to international quality systems.

Proprietary Drying Technologies

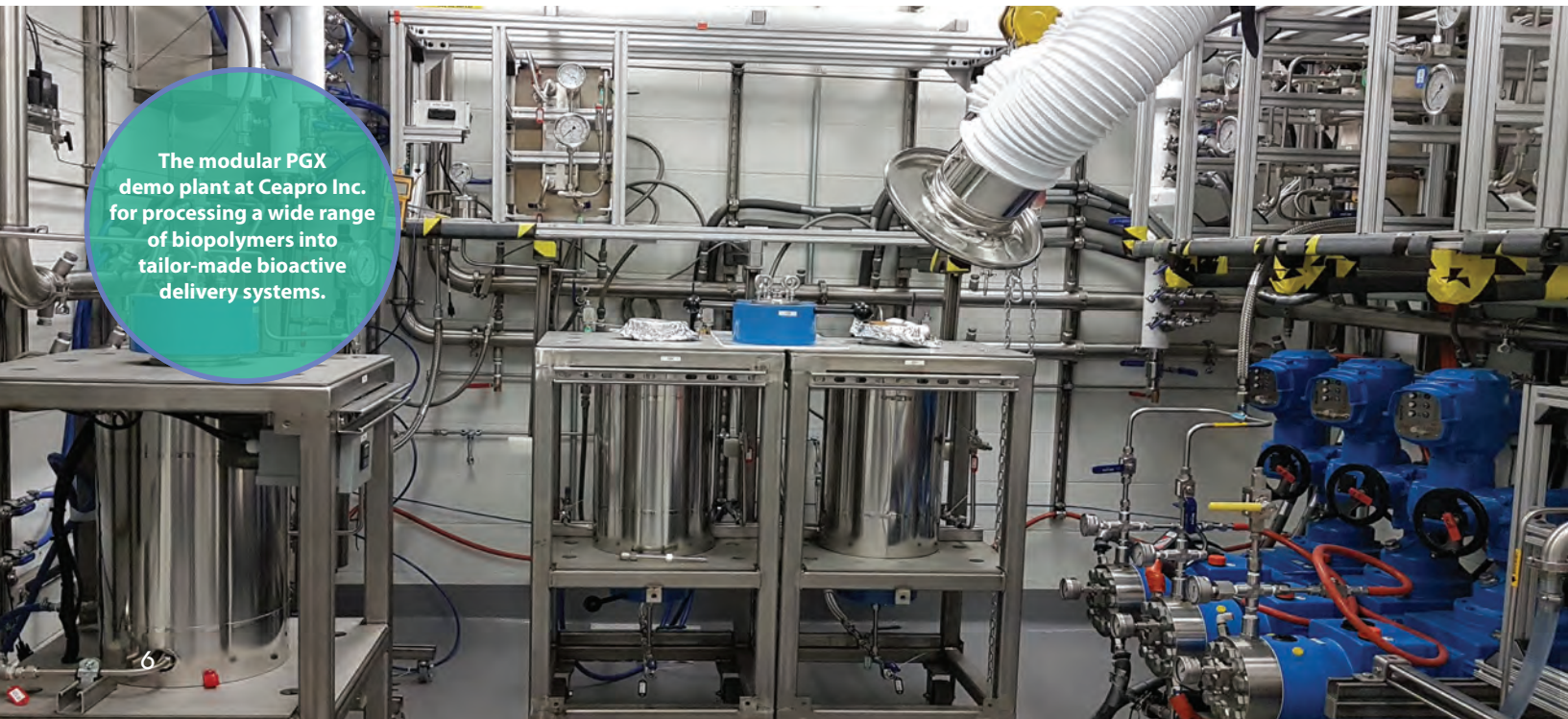
- ### Chromatography for High Purity of Avenanthramides

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

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

- ### Pressurized Gas eXpanded Technology (PGX)

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



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

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

The Technology can also be used for the development of new chemical complexes. As an example, Ceapro successfully developed a new water-soluble chemical complex composed of oat beta glucan impregnated with Co-enzyme Q10 (CoQ10-iBG). This new complex should bring clinical benefits when added to various formulations in the personal and healthcare sectors.

The PGX Technology has been licensed from the University of Alberta for all industrial applications. As a result of much work, Ceapro has built pilot scale and production scale units reaching commercial scale aqueous feed flow rates, thereby transforming laboratory findings into innovative products, which are the fruit of multidisciplinary collaboration and strong partnerships, and which have led to ongoing research and several development initiatives. The PGX Technology is patented in U.S., Canada, Europe and India.

The technology has been presented at national and international conferences and received excellent feedback and many inquiries from other industries. Six scientific articles were published in peer reviewed journals in 2018. Subsequent to year-end, three oral presentations were made at the European Meeting on Supercritical Fluids held in Spain. Results from the studies with newly developed chemical complexes confirmed the versatility of the technology and the potential to develop delivery systems for use in topical skin applications or for fast acting oral drug delivery systems. PGX becomes an extraordinary and unique game-changing technology.

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

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

From Plant to Pill

Healthcare: Our Near-Term and Long-Term Catalysts

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

AVENANTHRAMIDES

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

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

Update and Ceapro's Opportunity

- **Functional Food**

Ceapro's second generation of highly concentrated avenanthramides was used in human bioavailability and bioefficacy studies conducted at the University of Minnesota under the guidance of avenanthramide expert, Dr. Lili Ji.

The bioefficacy study was completed in 2018 and positive results showing the anti-inflammation properties of avenanthramides in an exercise-induced inflammation clinical trial were presented at the prestigious American Society of Nutrition Conference "Nutrition 2018" held in Boston from June 12-15, 2018.

Additional data from this trial will be presented on May 31, 2019 at the Worldwide Sports Medicine Conference to be held in Orlando, Florida, the goal being to further demonstrate the immunoregulatory mechanism of action of avenanthramides in alleviating exercise-induced inflammation.

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

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

BETA GLUCAN

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

Update and Ceapro's Opportunity

- **Functional Drink**

Following successful impregnation studies using PGX-processed dried beta glucan as a matrix, Ceapro successfully developed a new water-soluble chemical complex composed of oat beta glucan (BG) impregnated with well-known energy booster Co-enzyme Q10 (CoQ10). Following the successful characterization of the physico-chemical properties of the new chemical complex (CoQ10-iBG) and the first-time demonstration that Co-enzyme Q10 can be uniformly dispersed in water, Ceapro initiated a bioavailability study to demonstrate that CoQ10 reaches targeted tissus. Results from that study demonstrated bioavailability in a dose-dependent manner and suggest that the new CoQ10-iBG complex might act as a slow release formulation (in-house data). Three scientific articles were published in peer reviewed journals in 2018 on the physicochemical properties of the new chemical complex CoQ10-iBG. Discussions are ongoing with potential partners to produce this functional drink at the commercial level.

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

Health Canada has approved the clinical protocol to assess the safety and efficacy of beta glucan as a cholesterol reducer. This placebo-controlled pilot trial will be led by the prestigious Montreal Heart Institute. It will involve eleven research centers in Canada for the enrollment of 264 patients who cannot tolerate high doses of current treatments. Following the successful production of clinical batches of pharmaceutical grade tablets of beta glucan and the recent approval received from all ethics boards, the study is "ready to go". Given beta glucan's recognized health claims, Ceapro is pioneering the development of a natural product to be positioned as a nutraceutical that will have been developed according to the highest pharmaceutical standards.

Personal Care: Our Base Business

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

AVENANTHRAMIDES

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

Update and Ceapro's Opportunity

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

BETA GLUCAN

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

Update and Ceapro's Opportunity

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

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

:: Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the years ended December 31, 2018 and 2017, the financial position as at December 31, 2018, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 9, 2019. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2018, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2017, 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, 2017. All comparative percentages are between the years ended December 31, 2018 and 2017 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 9, 2019 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 innovative products, technologies, and delivery systems.

Our products include:

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

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

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

- A variety of novel enabling technologies including Pressurized Gas eXpanded drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds; and
- The development of new technologies to increase the content of avenanthramides to high levels to enable new innovative products to be introduced to new markets including functional foods, nutraceuticals, and botanical drugs.

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

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

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

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

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

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

RISKS AND UNCERTAINTIES

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

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

A) CREDIT RISK

Trade and other receivables

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal.

Approximately 90% of trade receivables are due from one distributor at December 31, 2018 (December 31, 2017 – 93% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

At December 31,	**2018 $**	2017 $
Not yet due	**2,492,721**	776,543
Less than 30 days past due	**498,579**	465,918
Less than 60 days past due, more than 30 days past due	**24,044**	3,952
More than 60 days past due	**–**	–
Total	**3,015,344**	1,246,413

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward-looking estimates. The expected credit losses calculated for December 31, 2018 and December 31, 2017 are not significant and have not been recognized.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $1,844,134 at December 31, 2018 (December 31, 2017 – $6,173,895) 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	949,878	–	–	–	949,878
Long-term debt	343,158	115,383	–	–	458,541
CAAP loan	83,884	167,767	–	–	251,651
Total	**1,376,920**	**283,150**	**–**	**–**	**1,660,070**

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	2,209,657	22,097	(22,097)
Financial liabilities			
Accounts payable and accrued liabilities	180,805	(1,808)	1,808
Total increase (decrease)		20,289	(20,289)

	CARRYING AMOUNT (EURO)	FOREIGN EXCHANGE RISK (EURO)	
		− 1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial liabilities			
Long-term debt	17,860	(179)	179
Total (decrease) increase		(179)	179

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, 2018.

2. Interest rate risk

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

D) SHARE PRICE RISK

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

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

E) PEOPLE AND PROCESS RISK

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

Ceapro's consolidated financial statements are prepared within a framework of IFRS selected by management and approved by the Board of Directors. The assets, liabilities, revenues, and expenses reported in the consolidated financial statements depend to varying degrees on estimates made by management. An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain and if

different estimates that could have been used would have a material impact. The significant areas requiring the use of management estimates relate to provisions made for impairment of non-financial assets and goodwill, inventory valuation, amortization of property and equipment and intangible assets, the recognition and valuation of tax liabilities and tax assets, provisions, the assumptions used in determining share-based compensation, and the assumptions used to value royalty obligations. These estimates are based on historical experience and reflect certain assumptions about the future that we believe to be both reasonable and conservative. Actual results could differ from those estimates. Ceapro continually evaluates the estimates and assumptions.

F) LOSS OF KEY PERSONNEL

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

G) INTERRUPTION OF RAW MATERIAL SUPPLY

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

H) ENVIRONMENTAL ISSUES

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

I) REGULATORY COMPLIANCE

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

J) LEGAL MATTERS

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

K) ACQUISITIONS

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

L) FAIR VALUE AND IMPAIRMENT

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

CHANGES IN ACCOUNTING POLICIES

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. A five-step model is used to account for revenue arising from contracts with customers. Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Incremental costs of obtaining a contract are paid over the life of the contract.

The Company has adopted IFRS 15, effective January 1, 2018, using the full retrospective transition method. The adoption of this standard does not have a material impact on the Company's financial statements, as such it did not result in any adjustment in the amounts previously recognized in the consolidated financial statements.

The Company generates revenues from product sales. Revenue for the sale of product is recognized at the point in time when control or ownership of the product is transferred to the customer, generally when the products are shipped, and when collectability is probable. The adoption of IFRS 15 had no material impact on the timing or the amount of sales revenue recognized.

Revenue is measured net of returns, trade discounts, and volume discounts.

The Company does not have any revenue contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As such, the Company does not adjust any of the transaction prices for the time value of money.

When an amount is received as an advance or a deposit from a customer, prior to the recognition of revenue, a contract liability results. These amounts were previously included in deferred revenue but are now classified as contract liabilities on the Consolidated Balance Sheet. The Company had no contract liabilities at December 31, 2018 or December 31, 2017.

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.

The Company has adopted IFRS 9 retrospectively, effective January 1, 2018. The adoption of this standard does not have a material impact on the Company's financial statements, as such it did not result in any adjustment in the amounts previously recognized in the consolidated financial statements.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

IFRS 9 has eliminated the previous IAS 39 categories for held to maturity, loans and receivables, and available for sale financial assets. A financial asset is now classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the new standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Company's financial assets which consist of cash and cash equivalents and trade and other receivables are classified at amortized cost and are measured at amortized cost using the effective interest method.

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Company's accounts receivable are considered collectible within one year or less; therefore these financial assets are

not considered to have a significant financing component and a lifetime expected credit loss (ECL) is measured at the date of initial recognition of the accounts receivable.

The Company's trade and other receivables are subject to the expected credit loss model under IFRS 9. The Company applies the simplified approach to providing for expected credit losses. The adoption of the ECL impairment model had a negligible impact on the carrying amounts of the Company's financial assets on the transition date given the receivables are all current and the minimal historical level of customer default.

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 16 "LEASES"

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

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Company will adopt IFRS 16 on January 1, 2019 using the modified retrospective approach. As a result, any adjustments to the financial statements for prior periods will be recognized through opening retained earnings on January 1, 2019 and no changes will be made to the comparative year. The Company is expecting a material impact to the financial statements upon adoption resulting in the recognition of right of use assets and lease liabilities as the Company has material commitments relating to operating leases under IAS 17. The nature of expenses related to those leases will also change because the Company will recognize a depreciation charge for right of use assets and interest expense on lease liabilities. Under the current standard the Company recognizes operating lease expense on a straight-line basis over the term of the lease.

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

CONSOLIDATED INCOME STATEMENT

$000s EXCEPT PER SHARE DATA	**2018**	**%**	2017	%	2016	%
Total revenues	**11,593**	**100%**	12,926	100%	13,674	100%
Cost of goods sold	**5,455**	**47%**	5,654	44%	4,321	32%
Gross margin	**6,138**	**53%**	7,272	56%	9,353	68%
Research and product development	**2,666**	**23%**	1,606	12%	919	7%
General and administration	**3,000**	**26%**	2,841	22%	2,187	16%
Sales and marketing	**225**	**2%**	32	0%	5	0%
Finance costs	**119**	**1%**	137	1%	243	2%
Income from operations	**128**	**1%**	2,656	21%	5,999	44%
Royalty provision – Ceapro Inc.	**–**	**0%**	(779)	– 6%	–	0%
Royalty provision – Ceapro Technology Inc.	**–**	**0%**	(1,375)	– 11%	–	0%
Impairment on intangible assets	**(430)**	**– 4%**	–	0%	–	0%
Impairment on goodwill	**(219)**	**– 2%**	–	0%	–	0%
Gain on settlement of royalty provisions	**723**	**6%**	–	0%	–	0%
Other expenses (income)	**(1,123)**	**– 10%**	(929)	– 7%	(636)	– 5%
Income (loss) before tax	**(921)**	**– 8%**	(427)	– 3%	5,363	39%
Income tax (expense) recovery	**605**	**5%**	(531)	– 4%	(1,743)	– 13%
Net income (loss)	**(316)**	**– 3%**	(958)	– 7%	3,620	26%
Basic net income (loss) per common share	**(0.004)**		(0.013)		0.053	
Diluted net income (loss) per common share	**(0.004)**		(0.013)		0.051	

The following sections discuss the consolidated results from operations.

REVENUE

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2018**	2017	CHANGE	**2018**	2017	CHANGE
Total revenues	**11,593**	12,926	– 10%	**4,467**	2,969	50%

Revenue for the year ended December 31, 2018 amounted to $11,593,000 compared to $12,926,000 in 2017, representing a decrease of 10% or $1,333,000. Product sales volume was also 10% lower than the comparative year. While sales of beta glucan and other products have increased over the comparative year, the sale of avenanthramides have decreased by approximately 16%. The sales decline of avenanthramides was even lower throughout the year but due to strong fourth quarter sales of avenanthramides, the decline was reduced. The lower sales revenue was offset partially by a higher U.S. dollar relative to the Canadian dollar compared to the prior year, which positively impacted revenue by approximately $194,000.

Total sales revenue for the fourth quarter ended December 31, 2018 amounted to $4,467,000 compared to $2,969,000 for the fourth quarter ended December 31, 2017, which represented an increase of 50% or $1,498,000. Product sales volume for the fourth quarter was 33% higher than the comparative quarter in 2017. The increase was primarily driven by a 52% increase in the sale of avenanthramides. The higher sales revenue was also partially due to a higher U.S. dollar relative to the Canadian dollar compared to the comparative quarter which positively impacted revenue by approximately $164,000.

EXPENSES

COST OF GOODS SOLD AND GROSS MARGIN

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2018**	2017	CHANGE	**2018**	2017	CHANGE
Sales	**11,593**	12,926	– 10%	**4,467**	2,969	50%
Cost of goods sold	**5,455**	5,654	– 4%	**2,051**	1,299	58%
Gross margin	**6,138**	7,272	– 16%	**2,416**	1,670	45%
Gross margin %	**53%**	56%		**54%**	56%	

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

During the year ended December 31, 2018, revenue decreased by 10%, while the cost of goods sold only decreased by 4% or by $199,000. The cost of goods sold did not decrease as much as the decrease in revenue which has contributed to an overall decrease in the gross margin percentage from 56% to 53%. Overhead costs were higher in the current year due to an increase in salaries and wages relating to additional operators and staff hired to support the operation of both the existing and new production facility during the commissioning and validation phase, higher waste removal costs, direct supply costs, and repairs and maintenance expense, which were partially offset by lower utilities and amortization expense from the Leduc facility. Overhead expenses were also higher for both the year and the fourth quarter, as rent expense on the Edmonton facility commenced being charged to cost of sales instead of other relocation costs. Amortization of the Edmonton facility also commenced in the fourth quarter of 2018, as commissioning activities were

substantially completed, which also negatively impacted cost of goods sold expense for both the year and fourth quarter by $233,000.

During the fourth quarter of fiscal 2018, cost of goods sold was $2,051,000 which was $752,000 higher than the comparative quarter representing an increase of 58%. This increase was greater than the 50% increase in sales during the quarter and the net result was a lower gross margin percentage of 54% compared with 56% in the comparative quarter. Overhead expenses were higher than the comparative quarter for the same reasons as for the year ending December 31, 2018, except for repairs and maintenance expense which was lower. However, offsetting the increase in overhead costs and the commencement of amortization of the Edmonton facility was a positive impact from the difference in product sales mix on the gross margin and gross margin percentage over the comparative quarter.

RESEARCH AND PRODUCT DEVELOPMENT

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2018**	2017	CHANGE	**2018**	2017	CHANGE
Salaries and benefits	**862**	716		**275**	221	
Regulatory and patents	**208**	155		**40**	8	
Clinical studies	**1,150**	221		**294**	45	
Other	**446**	514		**62**	–	
Total research and product development expenditures	**2,666**	1,606	66%	**671**	274	145%

During the year ended December 31, 2018, research and development expenses increased by 66% or $1,060,000.

The increase is primarily due to an increase in research and development costs related to the pilot clinical study for the development of beta glucan as a cholesterol reducer. During the year, the Company finalized the production of the clinical lots to be used in the trial and entered into an agreement with the Montreal Heart Institute to initiate the recruitment of study sites and perform medical and safety reviews. The Company received approval from Health Canada to initiate the study in October 2018. Investigators from eleven research centers met in February 2019 and approval was received from all prospective ethics boards paving the way for recruitment of patients to commence.

The increase is also partially due to an increase in research and development salaries, which were higher than the comparative year partially due to receiving less grant funding in the current year compared to the prior year and partially due to higher share-based payment expense in the current year.

These decreases are partially offset by a decrease in spending on other research and development costs. Expenditures on the Company's Pressurized Gas eXpanded Technology ("PGX") increased during the year, but the total was lower in the current year than the prior year because in the prior year there were also payments for a research program studying the bio activity of new formulations of the Company's value driver active ingredients and a program studying the anti-inflammatory properties of avenanthramides.

For the quarter ending December 31, 2018, research and development expenses have increased by 145% or $397,000.

Consistent with the year end, the increase is primarily due to an increase in research and development costs related to the pilot clinical study for the development of beta glucan as a cholesterol reducer.

The increase is also partially due to overall higher patent maintenance and higher salaries and benefits expense due to receiving less grant funding than the comparative quarter. Regulatory and patents expense will vary from period to period based on the timing of filings and maintenance payments. For both the year and quarter ended December 31, 2018, the expense is higher than the comparative periods primarily due to patent maintenance on increased patent applications for its enabling technologies.

The increased investment in research and development expenses are in line with the Company's new business model focusing on investing in its various enabling technologies and research on product development and new applications for its value driving products.

GENERAL AND ADMINISTRATION

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2018**	2017	CHANGE	**2018**	2017	CHANGE
Salaries and benefits	**968**	1,067		**223**	299	
Consulting	**480**	480		**120**	120	
Board of directors compensation	**161**	162		**41**	40	
Insurance	**145**	133		**30**	38	
Accounting and audit fees	**116**	97		**17**	17	
Rent	**112**	92		**33**	26	
Public company costs	**327**	294		**82**	42	
Travel	**115**	100		**26**	23	
Depreciation and amortization	**270**	141		**99**	43	
Legal	**40**	45		**2**	26	
Other	**266**	230		**69**	54	
Total general and administration expenses	**3,000**	2,841	6%	**742**	728	2%

General and administration expense for the year ended December 31, 2018 increased by $159,000 or 6% over the prior year. The increase was primarily due to an increase in depreciation and amortization. The increase was also due to increases in public company costs, insurance, accounting and audit fees, rent, and travel. The increase in public company communications costs related to the Company's new website and expansion into social media platforms. The increase in depreciation and amortization expense primarily related to the amortization of intangible assets acquired with the acquisition of Juvente and the increases in insurance, accounting and audit fees, rent, and travel are also primarily related to the acquisition of Juvente. These increases were partially offset by a decrease in salaries and benefits, which was charged with significantly lower share-based payment expense in the current year offset by an increase in salaries from the acquisition of Juvente.

For the quarter ended December 31, 2018, general and administration expense increased by $14,000 or 2% over the comparative quarter. The increase was primarily due to increases in depreciation and amortization expense and public company costs for the same reasons that the results from the year were impacted. These increases were offset by lower salaries and benefits expense in the current quarter due to lower share-based payment expenses in 2018 and by lower legal fee expense as the comparative quarter legal fees were higher due to the acquisition of Juvente.

SALES AND MARKETING

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2018**	2017	CHANGE	**2018**	2017	CHANGE
Sales and marketing salaries	**81**	–		**42**	–	
Courses, conferences & advertising	**142**	25		**74**	18	
Other	**3**	7		**1**	4	
Total sales and marketing	**226**	32	606%	**117**	22	432%

The Company's strategy during the year ended 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 dermatology products.

FINANCE COSTS

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2018**	2017	CHANGE	**2018**	2017	CHANGE
Interest on long-term debt	**10**	20		**3**	–	
Transaction costs	**16**	18		**4**	4	
Royalties	**55**	55		**–**	–	
Accretion of CAAP loan	**38**	44		**10**	12	
	119	137	– 13%	**17**	16	6%

Finance costs decreased by 13% or $18,000 in the year ended December 31, 2018 from $137,000 in 2017 to $119,000. The decrease is 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, but it is also due to lower accretion expense on the CAAP loan.

Finance costs for quarter ended December 31, 2018 increased by $1,000, from $16,000 in 2017 to $17,000. The increase primarily relates to an increase in interest on long-term debt as borrowing costs relating to the Company's new manufacturing facility ceased being capitalized in the current quarter. This increase was offset by lower accretion expense on the CAAP loan.

OTHER EXPENSES

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2018**	2017	CHANGE	**2018**	2017	CHANGE
Foreign exchange loss (income)	**1**	133		**(64)**	2	
Quality management system	**606**	82		**196**	–	
Other loss (income)	**(52)**	(3)		**(12)**	(7)	
Plant relocation costs	**568**	659		**99**	222	
Loss on disposal of equipment	**–**	59		**–**	59	
	1,123	930	21%	**219**	276	– 21%

During the year ended December 31, 2018, other expenses increased by $193,000 or 21% from $930,000 in 2017 to $1,123,000. The increase was primarily due to expenditures on the Company's project to implement an improved quality management system. This increase was offset by a lower foreign exchange loss in the year compared with the loss in 2017, an increase in other income primarily from interest income, and lower plant relocation costs.

During the quarter ended December 31, 2018, other expenses decreased by $57,000 or 21% from $276,000 in 2017 to $219,000 in the current quarter. The decrease was primarily due to a decrease in plant relocation costs, a foreign exchange gain in the current quarter, and an increase in other income primarily from interest income. This decrease was offset by expenditures on the Company's project to implement an improved quality management system.

The new quality management 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 project commenced in the fourth quarter of fiscal 2016 and continued through the first two quarters of 2017. The project started back up again in Q1 of 2018 and increased in scale during the year in preparation for customer audits which were successfully conducted in the fourth quarter of 2018.

Plant relocation costs represent costs incurred relating to the new manufacturing facility that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized. The decrease in expense for both the year and fourth quarter ended December 31, 2018 is due to the Company substantially completing the commissioning phase during the fourth quarter and certain of the costs like rent expense and utilities that are related to the production and sale of inventory are now reflected in cost of goods sold. These decreases are partially offset by expense increases due to an overlapping rental charge from moving our warehouse closer to the new facility as well as additional storage and transportation costs incurred in the transition to the new manufacturing facility.

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, 2018, the Euro debt translation resulted in a $5,000 loss compared to a $30,000 loss in the comparative year. During the quarter ended December 31, 2018, the Euro debt translation resulted in an $400 loss compared to an $8,000 loss in the comparative quarter.

DEPRECIATION AND AMORTIZATION EXPENSE

In the year ended December 31, 2018, the total depreciation and amortization expense of $579,000 (2017 – $326,000) was allocated as follows: $270,000 to general and administration expense (2017 – $144,000), $2,000 to inventory (2017 – $6,000), and $307,000 (2017 – $176,000) to cost of goods sold.

Depreciation expense is higher than the comparative year partially due to 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, and partially due to the substantial completion of commissioning activities on the Company's new extraction/fractionation facility during the fourth quarter of 2018, which has resulted in the commencement of amortization on the associated manufacturing equipment and leasehold improvements.

SEGMENTED FINANCIAL PERFORMANCE

The Company has two operating segments, the active ingredient product technology industry and the cosmeceutical industry. The cosmeceutical industry segment is operated through Juvente, a private company which was acquired on October 25, 2017. The Company's consolidated results include a full year of operations from Juvente for the fiscal year ended December 31, 2018 and only two months for the comparative year ended December 31, 2017, as such, there is little comparability between the two years. Juvente is also in the start-up phase, so the segment does not contribute significantly to revenue generation at this time. The segment's expenses relate to general and administrative costs, marketing costs, and to a lesser impact research and development costs; and these costs have been discussed in the consolidated results of operations.

As at December 31, 2018, the Company performed an annual impairment test on the segment, and based on current forecasted cash flows, the carrying value of the intangible assets and goodwill recognized in the segment exceeded the recoverable amount calculated, which resulted in an impairment charge of $430,533 on its intangible assets and $218,606 on goodwill, which was recognized in the Company's consolidated results from operations.

Juvente was acquired to execute on a strategic market diversification strategy to expand the Company's product portfolio with the development of formulations that utilize the Company's two value drivers, beta glucan, and avenanthramides, and to enable the Company to enter into the high-end cosmeceuticals market and market directly to the end-user. The development of the formulations and new market would assist the Company with the strategy of utilizing the formulations as a delivery system for various bio-actives. While the assets recognized on acquisition have been impaired, the Company does not believe the segment is impaired and will continue to develop the segment in line with strategic plans.

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.

	2018				2017			
$000s EXCEPT PER SHARE DATA	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total revenues	**4,467**	**2,125**	**2,731**	**2,270**	2,969	3,600	3,174	3,183
Net income (loss)	**444**	**(299)**	**(166)**	**(295)**	(1,642)	296	370	18
Basic net income (loss) per common share	**0.006**	**(0.004)**	**(0.002)**	**(0.004)**	(0.022)	0.004	0.005	0.000
Diluted net income (loss) per common share	**0.006**	**(0.004)**	**(0.002)**	**(0.004)**	(0.022)	0.004	0.005	0.000

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

Net income (loss) in the first quarter of 2018 and 2017 includes non-cash share-based payment accounting charges of $185,000 (2017 – $307,000) primarily relating to the granting of stock options and restricted share units in January 2018 and the granting of stock options in January 2017. These accounting charges are considerably higher than in any of the comparable quarters presented, as convertible securities 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, 2018**	December 31, 2017
Non-current assets	**19,190**	18,811
Current assets	**6,135**	8,997
Current liabilities	**(1,360)**	(4,067)
Total assets less current liabilities	**23,965**	23,741
Non-current liabilities	**750**	1,197
Shareholders' equity	**23,215**	22,544
Total capital employed	**23,965**	23,741

Non-current assets increased by $379,000 primarily due to the recognition of deferred tax assets of $521,000 pursuant to the Company's annual tax provision and the acquisition of $1,085,000 of property and equipment net of grants offset by a depreciation provision of $516,000. These increases were offset by an impairment loss recognized on intangible assets and goodwill in the amount of $649,000 and an amortization provision on intangible assets of $59,000 and on licences of $3,000.

Current assets decreased by $2,862,000. Cash decreased by $4,330,000 primarily due to the cash payment related to the settlement of the royalty provisions, the acquisition of property and equipment, the repayment of long-term debt, and the working capital impact of an increase in trade receivables. Current assets also decreased from a decrease in inventories of $375,000. These decreases were partially offset by the increase in trade and other receivables of $1,602,000 and an increase in prepaid expenses and deposits of $241,000.

Current liabilities totaling $1,360,000 decreased by the net amount of $2,707,000 primarily due to the settlement of royalty provisions totaling $2,154,000 and a decrease in the current portion of long-term debt of $524,000 and a decrease in trade payables of $30,000.

Non-current liabilities totaling $750,000 decreased by the net amount of $447,000 primarily due to the repayment of and reclassification to current portion of long-term debt of $321,000 and by the reduction of $81,000 of deferred tax liabilities which resulted in a net deferred tax liability of $524,000 at December 31, 2018 and the repayment of the CAAP loan net of accretion of $46,000.

Equity of $23,215,000 at December 31, 2018 increased by $671,000 from equity of $22,544,000 at December 31, 2017 due to the issuance of shares on the settlement of the royalty provisions of $650,000 and the recognition of share-based payment compensation of $337,000 which was offset by the recognition of a net loss of $316,000 for the year ended December 31, 2018.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the years ended December 31, 2018 and 2017.

	Year Ended Ended December 31,		Quarter Ended Ended December 31,	
$000s	**2018**	2017	**2018**	2017
Sources of funds:				
Funds generated from operations adjusted for non-cash items	**–**	667	**1,081**	–
Grant used for capital assets	**124**	616	**–**	87
Share issuance	**–**	514	**–**	16
Changes in non-cash working capital items relating to operating activities	**–**	988	**–**	2,065
Proceeds from disposal of equipment	**–**	45	**–**	45
Deposits relating to investing activities	**–**	128	**–**	660
	124	2,958	**1,081**	2,873
Uses of funds:				
Funds used in operations adjusted for non-cash items	**(7)**	–	**–**	(1,546)
Purchase of property and equipment	**(1,093)**	(3,108)	**(88)**	(1,635)
Purchase of leasehold improvements	**(85)**	(911)	**(75)**	(54)
Deposits relating to investing activities	**(77)**	–	**(57)**	–
Changes in non-cash working capital items relating to operating activities	**(2,075)**	–	**(2,866)**	–
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	**(127)**	(89)	**(9)**	104
Interest paid	**(41)**	(81)	**(6)**	(12)
Acquisition of Juvente, net of cash acquired	**–**	(647)	**–**	(647)
Repayment of long-term debt and CAAP loan	**(949)**	(1,098)	**(296)**	(344)
	(4,454)	(5,934)	**(3,397)**	(4,134)
Net change in cash flows	**(4,330)**	(2,976)	**(2,316)**	(1,261)

Net change in cash flow was a decrease of $4,330,000 during the year ended December 31, 2018 in comparison with a decrease of $2,976,000 for the year ending December 31 2017. Including non-cash working capital items relating to operations, the first nine months of 2018 required the use of $2,122,000 of cash versus the generation of $1,573,000 of cash from operations in the comparative year. This was primarily a result of lower revenue earned in the current year and a greater investment in research and development expenditures and expenditures relating to additional development of the Company's quality management system. Capital expenditures are significantly lower in the current year at $1,382,000 versus $4,581,000 in the comparative year; however, the expenditures in the comparative year were also partially offset by proceeds from the exercise of $500,000 of stock options and warrants and the receipt of $615,000 from grants.

During the year ended December 31, 2018, the property and equipment expenditures related primarily to the commissioning and validation of the extraction/fractionation processes, and partially to the continued development of a pilot scale skid for the Company's PGX Technology for which grant funding was recognized. During the year ended December 31, 2017, the property and equipment expenditures related to the same projects but were higher. During the year ended December 31, 2017, the Company also made deposits on the purchase of an 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. 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 to commence until 2019 due to other development priorities.

The Company has a positive working capital balance of $4,775,528 at December 31, 2018. The Company estimates that the cash flows generated by its existing operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, maintain capital investment, and service debt needs. However, the Company has several ongoing research and development projects and planned upcoming clinical trials and management will have to prioritize expenditures on those projects that are in line with our stated objectives to develop new product applications and transition to the nutraceutical sector which we consider will provide the most beneficial outcome and value to our shareholders.

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

Total common shares issued and outstanding as at April 9, 2019 were 77,048,341 (April 17, 2018 – 75,756,859). In addition, 3,052,001 stock options and 280,000 restricted share units as at April 9, 2019 (April 17, 2018 – 2,598,668 stock options, 4,244,480 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, 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. An amount of $19,800 was expended on the research project. The project was completed at December 31, 2017.

c) 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, 2017, the Company recognized $557,908 on eligible equipment and $85,200 on eligible expenses. At December 31, 2017, the Company had expended $60,680 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the year ended December 31, 2018, the Company recognized $87,027 on eligible equipment and $52,293 on eligible expenses and received final payments totaling $200,000. This project has been completed at December 31, 2018.

d) 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 which was recorded as a reduction of research and project development expenses. The project was completed at December 31, 2017.

e) 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 which was recorded as a reduction of research and development activities. The project was completed at December 31, 2017.

f) 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, 2017, the Company received $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 expended $30,986 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the year ended December 31, 2018, the Company received the remaining $133,660 of contributions and recognized $36,494 as a reduction of capital expenditures and $66,180 as a reduction of research and development expenditures. The project has been completed at December 31, 2018.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2018, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $825,000 (2017 – $826,000) and share-based payments expense for key management personnel was $214,000 (2017 – $554,000).

The amount payable to directors at December 31, 2018 was $40,000 (2017 – $40,000). Consulting fees and key management salaries to officers included in accounts payable and accrued liabilities at December 31, 2018 was $NIL (2017 – $15,000).

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.

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 was $2,364. Pre-judgement interest was also awarded on the judgement. With the rendering of the judgement, there was no longer a royalty obligation pursuant to the development agreement and the Company recorded a current provision of $778, 636 at December 31, 2017.

On August 24, 2018, the Company entered into a Settlement Agreement with AVAC Ltd. to settle this provision in the entirety. Please see additional information in (c) below.

(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.

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-judgement interest. However, the judge did not grant judgement against the Company with respect to the CTI claim. With the rendering of the judgement, there was no longer a royalty obligation pursuant to the two development agreements. CTI 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 was obligated to consolidate into its financial statements.

On August 24, 2018, the Company entered into a Settlement Agreement with AVAC Ltd. to settle this provision in the entirety. Please see additional information in (c) below.

(c) On August 24, 2018, the Company entered into a Settlement Agreement with AVAC Ltd. to settle the royalty provisions described in (a) and (b) above. Pursuant to the terms of the Settlement Agreement, the royalty provisions were satisfied by a cash payment in the amount of $780,741 and by the issuance of 1,288,149 common shares of the Company each with an issuance price of approximately $0.50 per share aggregating $650,000. The shares issued are subject to a four month hold period and the share for debt conversion was accepted by the TSX Venture Exchange on September 20, 2018. As a result of the settlement, the Company has recognized a gain on the settlement of the royalty provisions of $722,895 in the consolidated statement of income (loss) in the year ended 2018.

(d) During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company 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.

(e) 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.

(f) 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

We will continue to leverage on our cosmeceuticals base business allowing the Company to pursue the transition to a new business model from a contract manufacturer to a biopharmaceutical company involved in nutraceuticals and pharmaceuticals. As part of new product development, the Company will develop formulations potentially allowing delivery of bioactives through different modes of administration (oral, topical, sub-lingual, nasal spray). The Juvente line of products will mostly be used for the development of topical/transdermal delivery systems using Ceapro's proprietary new chemical complexes developed through the use of PGX Technology.

Regarding manufacturing capabilities, Ceapro has the potential to work from two sites based in Alberta: the Leduc site, a government-owned bio incubator and the Edmonton site, a Ceapro new facility. Given that both sites were successfully audited by major customers and given new opportunities that are arising especially for applications of proprietary new chemical complexes, Ceapro will continue to operate two sites for an extended period depending on the results from an expected one-year feasibility study with a project dedicated to food. Should the results be positive with this new scope, Leduc, in addition to be a back-up for Edmonton, would be dedicated for production of actives with application in the nutraceuticals and functional food industry, while Edmonton will be for cosmeceuticals and potentially pharmaceuticals.

From a corporate perspective, we will pursue our plans to uplist Ceapro to a US based stock exchange. Using a stepwise approach, we will aim at listing Ceapro's shares on the OTCQX exchange. This first step towards a larger exchange should facilitate American investors to have access to Ceapro's shares and participate to the growth of the Company. It is expected that an uplisting will enable the Company to further diversify its retail and institutional investor base around the world.

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

ADDITIONAL INFORMATION

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

:: Consolidated Financial Statements

MANAGEMENT'S REPORT

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

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

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

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

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

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

Sincerely,

SIGNED "Gilles Gagnon"
President and Chief Executive Officer

SIGNED "Stacy Prefontaine"
Chief Financial Officer

April 9, 2019

Grant Thornton

Independent Auditor's report

Grant Thornton LLP
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To the Shareholders of Ceapro Inc.

Opinion

We have audited the consolidated financial statements of Ceapro Inc. ("the Company") which comprise the consolidated balance sheets as at December 31, 2018 and December 31, 2017 and the consolidated statements of net income (loss) and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Edmonton, Canada

April 9, 2019

Grant Thornton LLP

Chartered Professional Accountants

CONSOLIDATED BALANCE SHEETS

	December 31, 2018 $	December 31, 2017 $
ASSETS		
Current Assets		
Cash and cash equivalents	**1,844,134**	6,173,895
Trade receivables	**3,015,344**	1,246,413
Other receivables	**46,899**	213,512
Inventories (note 6)	**710,708**	1,085,388
Prepaid expenses and deposits	**518,219**	277,600
	6,135,304	8,996,808
Non-Current Assets		
Investment tax credits receivable	**607,700**	607,700
Deposits	**88,340**	87,816
Licences (note 7)	**24,440**	27,403
Property and equipment (note 8)	**17,947,967**	17,379,839
Intangible assets (note 9)	**–**	489,733
Goodwill (note 10)	**–**	218,606
Deferred tax assets (note 19 (b))	**520,872**	–
	19,189,319	18,811,097
TOTAL ASSETS	**25,324,623**	27,807,905
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**949,878**	979,626
Current portion of long-term debt (note 11)	**336,956**	860,871
Royalty provision – Ceapro Inc. (note 12 (a) (c))	**–**	778,636
Royalty provision – Ceapro Technology Inc. (note 12 (b) (c))	**–**	1,375,000
Current portion of CAAP loan (note 14)	**72,942**	72,942
	1,359,776	4,067,075
Non-Current Liabilities		
Long-term debt (note 11)	**110,350**	430,622
CAAP loan (note 14)	**115,216**	161,424
Deferred tax liabilities (note 19 (b))	**524,280**	604,835
	749,846	1,196,881
TOTAL LIABILITIES	**2,109,622**	5,263,956
Equity		
Share capital (note 13 (b))	**16,320,522**	15,565,522
Contributed surplus (note 13 (f))	**4,501,444**	4,269,855
Retained earnings	**2,393,035**	2,708,572
	23,215,001	22,543,949
TOTAL LIABILITIES AND EQUITY	**25,324,623**	27,807,905

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

Year Ended December 31,	2018 $	2017 $
Revenue (note 21)	**11,592,666**	12,925,825
Cost of goods sold	**5,454,468**	5,653,707
Gross margin	**6,138,198**	7,272,118
Research and product development	**2,665,838**	1,606,332
General and administration	**3,000,005**	2,840,605
Sales and marketing	**225,549**	32,106
Finance costs (note 17)	**118,728**	136,560
Income from operations	**128,078**	2,656,515
Other expenses (note 16)	**(1,123,061)**	(929,696)
Royalty provision – Ceapro Inc. (note 12 (a))	**–**	(778,636)
Royalty provision – Ceapro Technology Inc. (note 12 (b))	**–**	(1,375,000)
Impairment of intangible assets (note 9)	**(430,533)**	–
Impairment of goodwill (note 10)	**(218,606)**	–
Gain on settlement of royalty provisions (note 12 (c))	**722,895**	–
Loss before tax	**(921,227)**	(426,817)
Income taxes		
Current tax recovery	**4,263**	9,345
Deferred tax benefit (expense)	**601,427**	(540,803)
Income tax benefit (expense) (note 19 (a))	**605,690**	(531,458)
Total comprehensive loss for the year	**(315,537)**	(958,275)
Net loss per common share (note 27):		
Basic	**(0.00)**	(0.01)
Diluted	**(0.00)**	(0.01)
Weighted average number of common shares outstanding (note 27):		
Basic	**76,201,191**	75,343,907
Diluted	**76,201,191**	75,343,907

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital $	Contributed surplus $	Retained earnings $	Total equity $
Balance December 31, 2017	15,565,522	4,269,855	2,708,572	22,543,949
Shares issued for settlement of royalty provisions (note12 (c))	650,000	–	–	650,000
Share-based payments (note 13 (d) & (e))	–	336,589	–	336,589
Restricted share units vested (note 13 (e))	105,000	(105,000)	–	–
Net loss for the year	–	–	(315,537)	(315,537)
Balance December 31, 2018	16,320,522	4,501,444	2,393,035	23,215,001
Balance December 31, 2016	14,859,136	3,874,725	3,666,847	22,400,708
Share-based payments (note 13 (d))	–	587,484	–	587,484
Stock options exercised	121,464	(57,432)	–	64,032
Warrants exercised	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

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,	2018 $	2017 $
OPERATING ACTIVITIES		
Net loss for the year	**(315,537)**	(958,275)
Adjustments for items not involving cash		
Finance costs	**10,370**	20,032
Transaction costs	**15,682**	17,453
Depreciation and amortization	**578,603**	326,104
Unrealized foreign exchange loss on long-term debt	**5,211**	29,786
Accretion	**37,676**	44,075
Deferred tax expense	**(601,427)**	540,803
Share-based payments	**336,589**	587,484
Impairment of intangible assets	**430,533**	–
Impairment of goodwill	**218,606**	–
Gain on settlement of royalty provisions	**(722,895)**	–
Loss on disposal of equipment	**–**	59,119
Net loss for the year adjusted for non-cash items	**(6,589)**	666,581
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	**(1,768,931)**	(680,389)
Other receivables	**166,613**	(89,658)
Investment tax credits receivable	**–**	(120,361)
Inventories	**374,680**	151,958
Prepaid expenses and deposits	**(163,940)**	(30,764)
Deferred revenue	**–**	(310,765)
Contract liabilities	**–**	(178,848)
Royalty provisions	**(780,741)**	2,153,636
Accounts payable and accrued liabilities relating to operating activities	**97,345**	93,244
Total changes in non-cash working capital items	**(2,074,974)**	988,053
Net loss for the year adjusted for non-cash and working capital items	**(2,081,563)**	1,654,634
Interest paid	**(40,567)**	(81,628)
CASH (USED IN) GENERATED FROM OPERATIONS	**(2,122,130)**	1,573,006
INVESTING ACTIVITIES		
Purchase of property and equipment	**(1,092,744)**	(3,107,772)
Purchase of leasehold improvements	**(85,148)**	(910,847)
Proceeds from sale of equipment	**–**	45,000
Deposits relating to investment in equipment	**(77,203)**	128,284
Accounts payable and accrued liabilities relating to investing activities	**(127,093)**	(88,873)
Acquisition of Juvente, net of cash acquired	**–**	(646,749)
CASH USED BY INVESTING ACTIVITIES	**(1,382,188)**	(4,580,957)
FINANCING ACTIVITIES		
Stock options exercised	**–**	64,032
Warrants exercised	**–**	450,000
Repayment of long-term debt	**(865,080)**	(1,013,650)
Repayment of CAAP loan	**(83,884)**	(83,884)
Grant used for purchase of leaseholds, property and equipment	**123,521**	615,313
CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(825,443)**	31,811
Decrease in cash and cash equivalents	**(4,329,761)**	(2,976,140)
Cash and cash equivalents at beginning of the year	**6,173,895**	9,150,035
Cash and cash equivalents at end of the year	**1,844,134**	6,173,895

See accompanying notes

Cash and cash equivalents are comprised of $1,837,296 (2017 – $6,167,057) on deposit with financial institutions and $6,838 (2017 – $6,838) held in money market mutual funds.

:: Notes to Consolidated Financial Statements December 31, 2018 and 2017

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 9, 2019.

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. ("Juvente"). Juvente was acquired on October 25, 2017 (see note 5).

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

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

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

Management critical judgements

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional currency

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

Management estimates and assumptions

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

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, 2018.

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 13.

D) CASH AND CASH EQUIVALENTS

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

E) REVENUE RECOGNITION

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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	5 – 25 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 intangible assets with finite lives on a straight-line basis as the following annual rates, which approximate the useful lives of the assets:

Brands	10 years
Formulations	10 years
Website	3 years

Licences

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

Research and product development expenditures

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

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

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

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

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

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

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

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

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

J) BORROWING COSTS

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

K) IMPAIRMENT OF NON-FINANCIAL ASSETS AND GOODWILL

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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) INCOME (LOSS) PER COMMON SHARE

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

R) SHARE-BASED PAYMENT ARRANGEMENTS

Stock option plan

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

Restricted share unit plan

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S) PROVISIONS

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

T) FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method.

The Company's financial liabilities consist of accounts payable and accrued liabilities, long-term debt, and the CAAP loan, which have been classified as financial liabilities at amortized cost and are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the obligation is discharged, cancelled, or expired.

3. NEW STANDARDS AND INTERPRETATIONS 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 16 "LEASES"

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

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Company will adopt IFRS 16 on January 1, 2019 using the modified retrospective approach. As a result, any adjustments to the financial statements for prior periods will be recognized through opening retained earnings on January 1, 2019 and no changes will be made to the comparative year. The Company is expecting a material impact to the financial statements upon adoption resulting in the recognition of right of use assets and lease liabilities as the Company has material commitments relating to operating leases under IAS 17. The nature of expenses related to those leases will also change because the Company will recognize a depreciation charge for right of use assets and interest expense on lease liabilities. Under the current standard, the Company recognizes operating lease expense on a straight-line basis over the term of the lease.

4. CHANGES IN ACCOUNTING POLICIES

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. A five-step model is used to account for revenue arising from contracts with customers. Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Incremental costs of obtaining a contract are paid over the life of the contract.

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The Company has adopted IFRS 15, effective January 1, 2018, using the full retrospective transition method. The adoption of this standard does not have a material impact on the Company's financial statements, as such it did not result in any adjustment in the amounts previously recognized in the consolidated financial statements.

The Company generates revenues from product sales. Revenue for the sale of product is recognized at the point in time when control or ownership of the product is transferred to the customer, generally when the products are shipped, and when collectability is probable. The adoption of IFRS 15 had no material impact on the timing or the amount of sales revenue recognized.

Revenue is measured net of returns, trade discounts, and volume discounts.

The Company does not have any revenue contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As such, the Company does not adjust any of the transaction prices for the time value of money.

When an amount is received as an advance or a deposit from a customer, prior to the recognition of revenue, a contract liability results. These amounts were previously included in deferred revenue but are now classified as contract liabilities on the Consolidated Balance Sheet. The Company had no contract liabilities at December 31, 2018 or December 31, 2017.

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.

The Company has adopted IFRS 9 retrospectively, effective January 1, 2018. The adoption of this standard does not have a material impact on the Company's financial statements, as such it did not result in any adjustment in the amounts previously recognized in the consolidated financial statements.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

IFRS 9 has eliminated the previous IAS 39 categories for held to maturity, loans and receivables, and available for sale financial assets. A financial asset is now classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the new standard are never separated. Instead the hybrid financial instrument as a whole is assessed for classification.

The Company's financial assets which consist of cash and cash equivalents and trade and other receivables were previously classified as loans and receivables under IAS 39 and are now classified as amortized cost under IFRS 9. Under both standards they are measured at amortized cost using the effective interest method.

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Company's accounts receivable are considered collectible within one year or less; therefore these financial assets are not considered to have a significant financing component and a lifetime expected credit loss (ECL) is measured at the date of initial recognition of the accounts receivable.

The Company's trade and other receivables are subject to the expected credit loss model under IFRS 9. The Company applies the simplified approach to providing for expected credit losses. The adoption of the ECL impairment model had a negligible impact on the carrying amounts of the Company's financial assets on the transition date given the receivables are all current and the minimal historical level of customer default.

5. 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 the Company's product portfolio with the development of formulations that utilize the Company's two value drivers, beta glucan and avenanthramides, and to enable the Company to enter into the high-end cosmeceuticals market and market directly to the end-user.

Acquisition related costs amounting to $19,000 have been included in general and administration expense for the year ended December 31, 2017.

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.

5. BUSINESS COMBINATION (CONTINUED)

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)
	646,749

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
	562,404

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

Net identifiable assets acquired and liabilties assumed	
	428,143

Goodwill	
	218,606

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.

6. INVENTORIES

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

	December 31, 2018 $	December 31, 2017 $
Raw materials	**497,794**	839,734
Work in progress	**46,931**	65,992
Finished goods	**165,983**	179,662
	710,708	1,085,388

Inventories expensed to cost of goods sold during the year ended December 31, 2018 are $5,228,512 (December 31, 2017 – $5,509,950).

During the year ended December 31, 2018, the Company decreased the carrying value of inventory by $72,245 (2017 – $29,561) due to estimated realizable values from certain finished goods being lower than cost. The write-down is included in cost of goods sold.

7. 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 20 (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, 2018 (December 31, 2017 – $2,963) (see note 20 (a)).

Cost of licences	$
Balance – December 31, 2016	44,439
Additions	–
Balance – December 31, 2017	44,439
Additions	–
Balance – December 31, 2018	44,439

Accumulated amortization	
Balance – December 31, 2016	14,073
Amortization	2,963
Balance – December 31, 2017	17,036
Amortization	2,963
Balance – December 31, 2018	19,999

Net book value	
Balance – December 31, 2018	24,440
Balance – December 31, 2017	27,403

8. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
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
Additions	877,395	213,176	10,607	21,763	85,148	1,208,089
Cost reduced by grant	(87,027)	(36,494)	–	–	–	(123,521)
Transfers	(6,802,257)	6,802,257	–	–	–	–
December 31, 2018	1,432,004	11,257,348	319,219	451,904	8,806,464	22,266,939
Accumulated Depreciation						
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
December 31, 2017	–	2,966,715	187,251	360,276	288,290	3,802,532
Additions	–	320,338	26,210	24,826	145,066	516,440
December 31, 2018	–	3,287,053	213,461	385,102	433,356	4,318,972
Carrying Value						
December 31, 2018	1,432,004	7,970,295	105,758	66,802	8,373,108	17,947,967
December 31, 2017	7,443,893	1,311,694	121,361	69,865	8,433,026	17,379,839

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Year Ended December 31, 2018	307,028	1,501	207,911	516,440
Year Ended December 31, 2017	176,028	6,263	130,983	313,274

During the year ended December 31, 2018, commissioning activities were substantially completed on the Company's new extraction/fractionation manufacturing facility and amortization has commenced on the manufacturing equipment and leasehold improvements that are now classified as available for use.

Included in the additions for equipment not available for use that have been transferred to manufacturing equipment are capitalized borrowing costs of $30,197 (2017 – $61,597) and capitalized employee salaries and benefits of $245,492 (2017 – $330,096) arising directly from the installation and related construction and commissioning of the new manufacturing equipment and production process. The borrowing costs have been capitalized at the rates of the specific borrowings ranging between 2.85% and 3.91%.

The carrying value of leasehold improvements in the amount of $1,021,356 (2017 – $1,017,534) and equipment not available for use of $1,432,004 (2017 – $1,432,004) represent the accumulated expenditures incurred on the purchase of an ethanol recovery system and the engineering design for the related construction and installation of the system. At December 31, 2018, no amortization has commenced on these balances as construction and installation activities have not commenced.

9. 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
Additions	–	–	–	–
Disposals	–	–	–	–
December 31, 2018	285,000	175,000	39,600	499,600
Accumulated Amortization				
December 31, 2016	–	–	–	–
Additions	4,750	2,917	2,200	9,867
Impairment loss	–	–	–	–
December 31, 2017	4,750	2,917	2,200	9,867
Additions	28,500	17,500	13,200	59,200
Impairment loss	251,750	154,583	24,200	430,533
December 31, 2018	285,000	175,000	39,600	499,600
Net Book Value				
December 31, 2018	–	–	–	–
December 31, 2017	280,250	172,083	37,400	489,733

The Company's intangible assets consist of identifiable intangible assets acquired in a business combination of Juvente^{DC} Inc. on October 25, 2017. Amortization of $59,200 (2017 – $9,867) has been included in general and administration expense.

The Company has recognized an impairment loss of $430,533 on its intangible assets at December 31, 2018. The impairment was calculated in accordance with the Company's accounting policies on the basis of value in use. The calculation of value in use was based on the same key assumptions utilized in the goodwill impairment analysis (see note 10).

10. GOODWILL

	December 31, 2018 $	December 31, 2017 $
Balance at beginning of the year	**218,606**	–
Juvente acquisition (note 5)		218,606
Impairment loss	**(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 cash generating unit (see note 5).

The Company performed its annual impairment test as at December 31, 2018. The recoverable amount of the CGU was estimated using value in use calculations. These calculations used pre-tax cash flows covering a five-year period based

on estimated growth rates for revenue and financial budgets and financial forecasts approved by management. The present value of the expected cash flows was determined using a risk adjusted discount rate of 22.5%. The revenue growth rates and discount rate are the key assumptions in the calculation of value in use.

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

The carrying amount of the CGU exceeded the recoverable amount resulting in an impairment charge to goodwill in the amount of $218,606 and to intangible assets in the amount of $430,533 (see note 9). Given that there are no longer any carrying amounts for intangible assets or goodwill, no further impairment will be taken.

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

11. LONG-TERM DEBT

	December 31, 2018 $	December 31, 2017 $
Loan payable secured by a general security agreement, due January, 2018 (a).	**–**	14,835
Loan payable secured by certain intellectual property, due January, 2019 (b).	**27,884**	344,546
Loan payable secured by a general security agreement, due April, 2019 (c).	**119,676**	459,973
Loan payable secured by a forklift, due June, 2018 (d).	**–**	5,803
Loan payable secured by a general security agreement, due July, 2020 (e).	**305,041**	487,313
Transaction costs	**(5,295)**	(20,977)
	447,306	1,291,493
Less current portion	**336,956**	860,871
	110,350	430,622

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

Year Ended December 31, 2018	10,370
Year Ended December 31, 2017	20,032

(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 has been fully repaid at December 31, 2018.

(b) During the year ended December 31, 2013, the Company entered into a loan agreement with its main distribution partner 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, 2018, the loan balance was 17,860 (December 31, 2017 – 228,904) 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, 2018, the monthly payment is $27,951 (December 31, 2017 – $26,946) in Canadian dollars. Subsequent to December 31, 2018, the loan has been fully repaid.

11. LONG-TERM DEBT (CONTINUED)

(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 11(b). Subsequent to December 31, 2018, the loan has been fully repaid.

(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 has been fully repaid at December 31, 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 11(b).

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

12. ROYALTY PROVISIONS

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.

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.

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 already paid by the Company, which was $2,364. Pre-judgement interest was also awarded on the judgement. With the rendering of the judgement, there was no longer a royalty obligation pursuant to the development agreement and the Company 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 were paid or accrued during the current or prior periods.

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 were paid or accrued during the current or prior periods.

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.

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 recorded a current provision of $1,375,000 at December 31, 2017.

c) On August 24, 2018, the Company entered into a settlement agreement with AVAC Ltd. to settle the royalty provisions described above in note 12 (a) and (b) in the entirety. Pursuant to the terms of the Settlement Agreement the royalty provisions were satisfied by a cash payment of $780,741 and by the issuance of 1,288,149 common shares of the Company each with an issuance price of approximately $0.50 per share aggregating $650,000. The shares issued were subject to a four-month hold period and the share for debt conversion was accepted by the TSX Venture Exchange on September 20, 2018. As a result of the settlement, the Company has recognized a gain on the settlement of the royalty provisions of $722,895 during the year ended December 31, 2018.

13. 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, 2018		Year Ended December 31, 2017	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of the year	**75,546,859**	**15,565,522**	74,872,225	14,859,136
Shares issued for settlement of royalty provisions	**1,288,149**	**650,000**	–	–
Stock options exercised	**–**	**–**	374,634	121,464
Warrants exercised	**–**	**–**	300,000	584,922
Restricted share units vested	**210,000**	**105,000**	–	–
Balance at end of the year	**77,045,008**	**16,320,522**	75,546,859	15,565,522

13. SHARE CAPITAL (CONTINUED)

In August 2018, the Company issued 1,288,149 common shares pursuant to the settlement of royalty provisions (see note 12 (c)). The shares were issued pursuant to a share for debt conversion with an issuance price of approximately $0.50 per share aggregating to $650,000. This non-cash transaction has been excluded from the Statement of Cash Flows.

In January 2018, the Company issued 210,000 common shares on the vesting and conversion of restricted share units (see note 13 (e)). 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, 2018		Year Ended December 31, 2017	
	Number of Warrants	**Weighted Average Exercise Price $**	Number of Warrants	Weighted Average Exercise Price $
Balance at beginning of the year	**4,904,857**	**1.44**	5,204,857	1.44
Exercised	**–**	**–**	(300,000)	1.50
Expired	**(4,904,857)**	**1.44**	–	–
Balance at end of year	**–**	**–**	4,904,857	1.44

The following table summarizes information about warrants outstanding:

Exercise Price $	Expiry Date	**December 31, 2018 Number of Warrants**	December 31, 2017 Number of Warrants
1.50	July 8, 2018	**–**	2,214,296
1.50	July 13, 2018	**–**	2,030,184
1.06	July 8, 2018	**–**	374,401
1.06	July 13, 2018	**–**	285,976
		–	4,904,857

D. STOCK OPTION SHARE-BASED PAYMENT PLAN

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

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the year ended December 31, 2018, the Company granted 350,000 (December 31, 2017 – 500,000) 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 2018 was 2.03% (2017 – 1.77%), the weighted average expected volatility was 105% (2017 – 118%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 9 years (2017 – 10 years), the forfeiture rate was 0% (2017 – 0%), the weighted average share price was $0.45 (2017 – $1.53), the weighted average exercise price was $0.45 (2017 – $1.53), and the expected dividends were nil (2017 – nil). The weighted average grant date fair value of options granted in the year ended December 31, 2018 was $0.38 (2017 – $1.44) per option.

The share-based payments expense recorded during the current year relating to options granted in 2018 and 2017 was $231,589 (during 2017 relating to options granted in 2017, 2016, and 2015 – $587,484).

A summary of the status of the Company's stock options at December 31, 2018 and December 31, 2017 and changes during the years ended on those dates is as follows:

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the year	**2,388,668**	**0.63**	2,263,302	0.36
Granted	**350,000**	**0.45**	500,000	1.53
Exercised	**–**	**–**	(374,634)	0.17
Expired	**(100,000)**	**0.44**	–	–
Forfeited	**(3,334)**	**0.27**	–	–
Outstanding at end of year	**2,635,334**	**0.61**	2,388,668	0.63
Exercisable at end of year	**2,230,333**	**0.56**	2,055,334	0.49

Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	**December 31, 2018 Number of Options**	December 31, 2017 Number of Options
0.37	0.40	2028	9.9	**80,000**	–
0.10	0.33	2020	1.8	**60,000**	–
0.47	0.50	2028	9.0	**210,000**	–
0.56	0.59	2027	8.8	**90,000**	90,000
1.22	1.30	2027	8.3	**10,000**	10,000
1.65	1.75	2027	8.0	**400,000**	400,000
0.25	0.27	2025	–	**–**	3,334
0.34	0.36	2025	6.3	**150,000**	150,000
0.47	0.50	2025	6.1	**100,000**	100,000
0.60	0.64	2025	6.0	**765,334**	765,334
0.37	0.27	2024	5.9	**150,000**	150,000
0.13	0.14	2024	5.4	**25,000**	25,000
0.08	0.10	2024	5.0	**300,000**	300,000
0.05	0.10	2023	4.0	**295,000**	295,000
0.22	0.44	2018	–	**–**	100,000
			6.4	**2,635,334**	2,388,668

13. SHARE CAPITAL (CONTINUED)

E. RESTRICTED SHARE UNIT SHARE-BASED PAYMENT PLAN

Effective June 1, 2017, the Company adopted a restricted share unit plan, which provides for the grant of restricted share units ("RSU's") to existing or proposed directors, employees, and consultants of the Company and its subsidiaries or any insider of the Company and its subsidiaries. Under the plan, the maximum number of common shares that may be reserved for issuance is fixed at 1,000,000. On the vesting of RSU's, the common shares of the Company will be issued from the same 10% rolling pool as the common shares issued under the stock option plan. The obligations under the RSU plan can be settled at the Company's discretion through either the issuance of cash or the issuance of common shares. The Company intends to settle the obligations through the issuance of common shares. No RSU's were granted during the year ended December 31, 2017.

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

The share-based payments expense recorded during the current year relating to the granting of these RSU's was $105,000.

F. CONTRIBUTED SURPLUS

	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
Balance at beginning of the year	**4,269,855**	3,874,725
Share-based payments (note 13 (d) & (e))	**336,589**	587,484
Restricted share units vested	**(105,000)**	–
Stock options exercised	**–**	(57,432)
Warrants exercised	**–**	(134,922)
Balance at end of the period	**4,501,444**	4,269,855

14. 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,	**2018 $**	2017 $
Opening balance	**234,366**	274,175
Repayment	**(83,884)**	(83,884)
Accretion of CAAP loan	**37,676**	44,075
	188,158	234,366
Less current portion	**72,942**	72,942
	115,216	161,424

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

15. RELATED PARTY TRANSACTIONS

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

Year Ended December 31,	**2018 $**	2017 $
Key management salaries, short-term benefits, consulting fees, and director fees	**824,579**	825,930
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	**–**	15,000
Key management personnel share-based payments	**213,605**	553,978
Amount payable to directors	**40,172**	39,803

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.

16. OTHER EXPENSES

Year ended December 31,	**2018 $**	2017 $
Foreign exchange loss	**1,233**	132,485
Other income	**(51,969)**	(3,243)
Quality management system	**605,879**	82,410
Plant relocation costs	**567,918**	658,925
Loss on disposal of equipment	**–**	59,119
	1,123,061	929,696

17. FINANCE COSTS

Year Ended December 31,	**2018 $**	2017 $
Interest on long-term debt	**10,370**	20,032
Transaction costs	**15,682**	17,453
Royalties	**55,000**	55,000
Accretion of CAAP loan	**37,676**	44,075
	118,728	136,560

18. EMPLOYEE BENEFITS

Year Ended December 31,	**2018 $**	2017 $
Employee benefits	**3,812,401**	3,506,561

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

19. INCOME TAXES

(A) INCOME TAX EXPENSE (RECOVERY)

Components of income tax expense are:

	December 31, 2018 $	December 31, 2017 $
Current tax expense (recovery)	**(4,263)**	(9,345)
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	**(92,678)**	48,008
Tax rate changes and tax rate differences	**(1,315)**	–
Change in unrecognized deductible temporary differences	**(502,027)**	392,337
Prior period adjustments	**(5,407)**	100,458
Income tax expense (recovery)	**(605,690)**	531,458

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, 2018 $	December 31, 2017 $
Income (loss) before tax	**(921,227)**	(426,817)
Statutory income tax rate	**27.00%**	27.00%
Expected income tax (recovery)	**(248,731)**	(115,241)
Increase (decrease) resulting from:		
Non taxable items	**93,227**	160,336
Change in unrecognized deductible temporary differences	**(502,027)**	392,337
Change in tax rates and rate differences	**61,511**	2,913
Prior period adjustments	**(9,670)**	91,113
Income tax expense (recovery)	**(605,690)**	531,458

(B) RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

	December 31, 2018 $	December 31, 2017 $
Deferred tax assets are attributable to the following:		
Finance costs	**923**	1,846
Patents	**179,686**	185,129
Cumulative eligible capital	**69,121**	74,332
Other	**1,781**	3,790
Share issuance costs	**95,448**	143,173
Royalty provision	**–**	210,232
Non-capital losses	**1,740,350**	459,372
Deferred tax assets	**2,087,309**	1,077,874
Offset by deferred tax liabilities	**(1,566,437)**	(1,077,874)
Net deferred tax asset	**520,872**	–
Deferred tax liabilities are attributable to the following:		
Property and equipment	**(1,902,837)**	(1,353,475)
Intangibles	**–**	(122,130)
CAAP loan and long-term debt	**(20,394)**	(39,053)
Inventory	**(3,407)**	(3,972)
SRED investment tax credits	**(164,079)**	(164,079)
Deferred tax liabilities	**(2,090,717)**	(1,682,709)
Offset by deferred tax assets	**1,566,437**	1,077,874
Net deferred tax liability	**(524,280)**	(604,835)

19. INCOME TAXES (CONTINUED)

(C) UNRECOGNIZED DEFERRED TAX ASSETS

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

	December 31, 2018 $	December 31, 2017 $
Deductible temporary differences	**291,961**	1,754,610
Tax losses	**13,295,886**	13,700,992
	13,587,847	15,455,602

The non-capital loss carryforwards expire between 2026 and 2038. 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, 2017 $	Recognized in Profit and (Loss)	**December 31, 2018 $**
Finance costs	1,846	(923)	**923**
Patents	185,129	(5,443)	**179,686**
Cumulative eligible capital	74,332	(5,211)	**69,121**
Other	3,790	(2,009)	**1,781**
Share issuance costs	143,173	(47,725)	**95,448**
Non-capital losses	459,372	1,280,978	**1,740,350**
Property and equipment	(1,353,475)	(549,362)	**(1,902,837)**
CAAP loan and long-term debt	(39,053)	18,659	**(20,394)**
Royalty provision	210,232	(210,232)	**–**
Inventory	(3,972)	565	**(3,407)**
Intangibles	(122,130)	122,130	**–**
SRED ITC's	(164,079)	–	**(164,079)**
	(604,835)	601,427	**(3,408)**

	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	196,923	(11,794)	–	185,129
Cumulative eligible capital	79,864	(5,532)	–	74,332
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)

20. 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.

20. COMMITMENTS (CONTINUED)

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.

21. SEGMENTED INFORMATION

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

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

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

The cosmeceutical industry segment operated through Juvente was not identified as a reportable segment for the year ended December 31, 2017 as it did not meet quantitative thresholds for reporting. Although the subsidiary is still considered to be in the start-up phase of development, it has met quantitative thresholds for the year ended December 31, 2018. The segmented information for the comparative year has been restated to reflect the newly reportable segment as a separate segment.

Geographic Information

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

Year Ended December 31,	**2018 $**	2017 $
United States	**8,300,380**	10,376,700
Germany	**2,271,703**	1,985,143
China	**848,966**	479,826
Other	**142,374**	70,474
Canada	**29,243**	13,682
	11,592,666	12,925,825

During the year ended December 31, 2018, the Company had export sales to one major distributor of the Company's products in the aggregate amount of $10,139,028 representing 87% of total revenue (2017 – $11,986,039 representing 93% of total revenue). This major distributor sells to dozens of customers on a worldwide basis.

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

Information about reportable segments is as follows:

Year Ended December 31, 2018:

	Active Ingredient Product Technology Industry $	Cosmeceutical Industry $	Total $
Revenue from external sales	11,575,201	17,465	11,592,666
Gross margin	6,150,040	(11,842)	6,138,198
Other expenses	1,123,061	–	1,123,061
Impairment of intangible assets	–	(430,533)	(430,533)
Impairment of goodwill	–	(218,606)	(218,606)
Gain on settlement of royalty provision	722,895	–	722,895
Income (loss) before tax	261,761	(1,182,988)	(921,227)
Income tax benefit	482,996	122,694	605,690
Net income (loss) and comprehensive income (loss)	744,757	(1,060,294)	(315,537)
Depreciation and amortization	513,610	64,993	578,603
Share-based payments	336,589	–	336,589
Property and equipment	17,938,520	9,447	17,947,967
Segment assets	25,080,998	243,625	25,324,623
Additions to property and equipment	1,076,104	8,464	1,084,568
Segment liabilities	2,080,323	29,299	2,109,622

21. SEGMENTED INFORMATION (CONTINUED)

Year Ended December 31, 2017:

	Active Ingredient Product Technology Industry $	Cosmeceutical Industry $	Total $
Revenue from external sales	12,922,955	2,870	12,925,825
Gross margin	7,271,082	1,036	7,272,118
Other expenses	929,696	–	929,696
Royalty provision	2,153,636	–	2,153,636
Income (loss) before tax	(349,298)	(77,519)	(426,817)
Income tax expense	(533,596)	2,138	(531,458)
Net income (loss) and comprehensive income (loss)	(882,894)	(75,381)	(958,275)
Depreciation and amortization	315,466	10,638	326,104
Share-based payments	587,484	–	587,484
Property and equipment	17,373,063	6,776	17,379,839
Intangible assets	–	489,733	489,733
Goodwill	–	218,606	218,606
Segment assets	26,991,924	815,981	27,807,905
Additions to property and equipment (net of grants)	3,472,345	–	3,472,345
Disposal of property plant and equipment	(104,119)	–	(104,119)
Segment liabilities	5,122,594	141,362	5,263,956

22. OPERATING LEASES

The Company incurred $1,000,746 in 2018 (2017 – $973,363) under rental operating leases. These amounts were recorded as follows: general and administration expenses of $112,901 (2017 – $91,491), research and development expenses of $32,909 (2017 – $33,298), cost of goods sold of $301,309 (2017 – $249,673), and other operating loss of $553,628 (2017 – $598,901).

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, 2019 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	360,045	1,377,020	455,714	2,192,779
Warehouse	78,584	91,681	–	170,265
Total	438,629	1,468,701	455,714	2,363,044

23. 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, 2018		December 31, 2017	
	Book value	**Fair value**	Book value	Fair value
Loans and receivables:				
Cash and cash equivalents	**$ 1,844,134**	**$ 1,844,134**	$ 6,173,895	$ 6,173,895
Trade and other receivables	**3,062,243**	**3,062,243**	1,459,925	1,459,925
Other financial liabilities:				
Accounts payable and accrued liabilities	**$ 949,878**	**$ 949,878**	$ 979,626	$ 979,626
Long-term debt	**447,306**	**447,306**	1,291,493	1,291,493
CAAP loan	**188,158**	**188,158**	234,366	234,366

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

A) CREDIT RISK

TRADE AND OTHER RECEIVABLES

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 90% of trade receivables are due from one distributor at December 31, 2018 (December 31, 2017 – 93% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

23. FINANCIAL INSTRUMENTS (CONTINUED)

The aging of trade receivables is as follows:

At December 31,	2018 $	2017 $
Not yet due	**2,492,721**	776,543
Less than 30 days past due	**498,579**	465,918
Less than 60 days past due, more than 30 days past due	**24,044**	3,952
More than 60 days past due	**–**	–
Total	**3,015,344**	1,246,413

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward-looking estimates. The expected credit loss calculated for December 31, 2018 and December 31, 2017 are not significant and have not been recognized.

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

CASH AND CASH EQUIVALENTS

The Company has cash and cash equivalents in the amount of $1,844,134 at December 31, 2018 (December 31, 2017 – $6,173,895) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

B) LIQUIDITY RISK

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

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

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	949,878	–	–	–	949,878
Long-term debt	343,158	115,383	–	–	458,541
CAAP loan	83,884	167,767	–	–	251,651
Total	1,376,920	283,150	–	–	1,660,070

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	2,209,657	22,097	(22,097)
Financial liabilities			
Accounts payable and accrued liabilities	180,805	(1,808)	1,808
Total increase (decrease)		20,289	(20,289)

	CARRYING AMOUNT (EURO)	FOREIGN EXCHANGE RISK (EURO)	
		−1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial liabilities			
Long-term debt	17,860	(179)	179
Total (decrease) increase		(179)	179

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, 2018.

2. Interest rate risk

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

24. 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, 2018.

25. 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 14).

b) 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. An amount of $19,800 was expended on the research project. The project was completed at December 31, 2017.

c) 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, 2017, the Company received $300,000 and recognized $557,908 on eligible equipment and $85,200 on eligible expenses. At December 31, 2017, the Company had expended $60,680 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the year ended December 31, 2018, the Company recognized $87,027 on eligible equipment and $52,293 on eligible expenses and received final payments totaling $200,000. This project has been completed at December 31, 2018.

d) 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 which was recorded as a reduction of research and project development expenses. The project was completed at December 31, 2017.

e) 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, which was recorded as a reduction of research and development activities. The project was completed at December 31, 2017.

f) 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, 2017, the Company received $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 expended $30,986 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the year ended December 31, 2018, the Company received a final payment of $133,660 and recognized $36,494 as a reduction of capital expenditures and $66,180 as a reduction of research and development expenditures. The project has been completed at December 31, 2018.

26. 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, 2018	1,291,493	234,366	1,525,859
Repayments	(865,080)	(83,884)	(948,964)
Foreign exchange translation	5,211	–	5,211
Amortization of transaction costs	15,682	–	15,682
Accretion	–	37,676	37,676
Balance December 31, 2018	447,306	188,158	635,464

	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

27. INCOME (LOSS) PER COMMON SHARE

Year Ended December 31,	**2018**	2017
Net loss for the year for basic and diluted earnings per share calculation	**($315,537)**	($958,275)
Weighted average number of common shares outstanding	**76,201,191**	75,343,907
Effect of dilutive stock options and warrants	**–**	–
Diluted weighted average number of common shares	**76,201,191**	75,343,907
Loss per share – basic	**($0.00)**	($0.01)
Loss per share – diluted	**($0.00)**	($0.01)

As the Company was in a net loss position for the years ended December 31, 2018 and December 31, 2017, the impact of the conversion of convertible securities is anti-dilutive.

28. SUBSEQUENT EVENT

Subsequent to the year-end, the Company granted 420,000 stock options and 280,000 restricted share units to all employees, officers and directors of the Company.

The stock options have an exercise price of $0.385 per common share and expire in five years. Each grant vests in three equal instalments, the first of which vests immediately with the second and third instalments vesting on the first and second anniversaries of the date of grant.

The restricted share units vest in two equal instalments, the first of which vests on July 1, 2019 and the second on January 1, 2020. Each unit award entitles the holder to receive one common share of the Company.

Investor Information – April 9, 2019

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

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

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

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

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

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

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

June 5, 2019 at 10:00 am MDT

Location:
The King Edward Room
3rd Floor, Manulife Place
10180 – 101 Street NW
Edmonton, Alberta
Canada T5J 3Y2

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