TSXV: CZO
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CEAPRO
Nature Enhancing Life®

Q3 2020

Unaudited Condensed Consolidated Financial Statements for the Third Quarter ended September 30, 2020

The MD&A provides commentary on the results of operations for the periods ended September 30, 2020 and 2019, the financial position as at September 30, 2020, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at November 25, 2020. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at September 30, 2020, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2019, which are prepared in accordance with International Financial Reporting Standards (IFRS), and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2019. All comparative percentages are between the periods ended September 30, 2020 and 2019 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A offers our assessment of Ceapro's future plans and operations as at November 25, 2020 and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

Vision, Core Business, and Strategy

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

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

Our products include:

- A commercial line of natural active ingredients, including *beta glucan, avenanthramides (colloidal oat extract*), *oat powder, oat oil*, *oat peptides,* and *lupin peptides,* which are marketed to the personal care, cosmetic, medical, and animal health industries through our distribution partners and direct sales;

- A commercial line of natural anti-aging skincare products, utilizing active ingredients including beta glucan and avenanthramides, which are marketed to the cosmeceuticals market through our wholly-owned subsidiary, Juvente^{DC} Inc.; and

- Veterinary therapeutic products, including an *oat shampoo*, an *ear cleanser,* and a *dermal complex/conditioner*, which are manufactured and marketed to veterinarians in Japan and Asia.

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

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

- A variety of novel enabling technologies including Pressurized Gas eXpanded drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds; and

- The development of new technologies to increase the content of avenanthramides to high levels to enable new innovative products to be introduced to new markets including functional foods, nutraceuticals, and botanical drugs.

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

- Identifying unique plant sources and technologies capable of generating novel active natural products;

- Increasing sales and expanding markets for our current active ingredients;

- Developing and marketing additional high-value proprietary therapeutic natural products;

- Developing and improving manufacturing technologies to ensure efficiencies; and

- Advancing new partnerships and strategic alliances to develop new commercial active ingredients with various formulations to expand our markets.

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

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

- Adding value to all aspects of our business;

- Enhancing the health of humans and animals;

- Discovering and commercializing new, therapeutic natural ingredients and bioprocessing technologies;

- Producing the highest quality work possible in products, science, and business; and

- Developing personnel through guidance, opportunities, and encouragement.

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

Risks and Uncertainties

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

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

a) Credit risk

Trade and other receivables

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 85% of trade receivables are due from one distributor at September 30, 2020 (December 31, 2019 – 97% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	September 30, 2020 $	December 31, 2019 $
Not yet due	1,142,184	1,481,978
Less than 30 days past due	612,740	1,954,651
Less than 60 days past due, more than 30 days past due	83,168	-
More than 60 days past due	-	222,912
Total	1,838,092	3,659,541

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

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company-wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward-looking estimates. The expected credit losses calculated for September 30, 2020 and December 31, 2019 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 $6,118,403 at September 30, 2020 (December 31, 2019 - $1,857,195) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

The following are the contractual maturities of the Company's financial liabilities and obligations as at September 30, 2020:

	within 1 year	1 to 3 years	3 to 5 years	over 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	949,813	-	-	-	949,813
CAAP loan	83,884	83,884	-	-	167,768
Total	1,033,697	83,884	-	-	1,117,581

c) Market risk

Market risk is comprised of interest rate risk, foreign currency risk, and other price risk. The Company's exposure to market risk is as follows:

1. Foreign currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company.

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	1,377,518	13,775	(13,775)
Financial liabilities			
Accounts payable and accrued liabilities	12,981	(130)	130
Total increase (decrease)		13,645	(13,645)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at September 30, 2020.

2. Interest rate risk

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

d) Share price risk

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

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

e) People and process risk

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

Ceapro's consolidated financial statements are prepared within a framework of IFRS selected by management and approved by the Board of Directors. The assets, liabilities, revenues, and expenses reported in the consolidated financial statements depend to varying degrees on estimates made by management. An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain and if different estimates that could have been used would have a material impact. The significant areas requiring the use of management estimates relate to provisions made for impairment of non-financial assets 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.

m) Public health crisis

The Company is exposed to risks related to pandemics or epidemics such as the ongoing Covid-19 virus pandemic. The Company could experience disruptions in our raw materials supply chain, in our manufacturing operations, and our shipping activities as a result of quarantines, facility closures, travel and logistics restrictions, and other limitations in connection with the outbreak. Covid-19 may adversely affect our operations, our suppliers, and our customers. While we would expect this to be temporary, there is uncertainty around the duration of the pandemic and its broader impact. The extent to which the pandemic will impact the Company’s results will depend on further developments which are highly uncertain and cannot be predicted with great certainty.

Results of Operations
Periods Ended September 30, 2020 and 2019

CONSOLIDATED INCOME STATEMENT

	Quarters Ended September 30,				Nine Months Ended September 30,			
$000s except per share data	2020	%	2019	%	2020	%	2019	%
Total revenues	**3,476**	**100%**	**2,908**	**100%**	**12,415**	**100%**	**9,158**	**100%**
Cost of goods sold	1,814	52%	1,895	65%	5,795	47%	5,327	58%
Gross margin	**1,662**	**48%**	**1,013**	**35%**	**6,620**	**53%**	**3,831**	**42%**
Research and product development	479	14%	307	11%	1,381	11%	1,920	21%
General and administration	791	23%	667	23%	2,495	20%	2,278	25%
Sales and marketing	12	0%	87	3%	90	1%	290	3%
Finance costs	43	1%	52	2%	189	2%	213	2%
Income (loss) from operations	**336**	**10%**	**(100)**	**-3%**	**2,466**	**20%**	**(870)**	**-9%**
Other income (expenses)	(144)	-4%	(4)	0%	(71)	-1%	(429)	-5%
Income (loss) before tax	**192**	**6%**	**(104)**	**-4%**	**2,395**	**19%**	**(1,299)**	**-14%**
Income taxes	-	0%	-	0%	-	0%	-	0%
Net income (loss)	**192**	**6%**	**(104)**	**-4%**	**2,395**	**19%**	**(1,299)**	**-14%**
Basic net income (loss) per common share	0.002		(0.001)		0.031		(0.017)	
Diluted net income (loss) per common share	0.002		(0.001)		0.031		(0.017)	

The following sections discuss the consolidated results from operations.

Revenue

$000s	Quarters Ended September 30, 2020	2019	Change	Nine Months Ended September 30, 2020	2019	Change
Total revenues	3,476	2,908	20%	12,415	9,158	36%

Total sales revenue increased by approximately $568,000 from $2,908,000 in the third quarter of 2019 to $3,476,000 in the third quarter of 2020. The increase was primarily driven by a 77% increase in the sale of avenanthramides which was partially offset by a 36% decrease in the sale of beta glucan quarter to quarter. 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 $23,000.

Revenue for the first nine months of 2020 was 36% higher than the comparative period. Consistent with the quarterly results, the increase was primarily driven by a 63% increase in the sale of avenanthramides which was partially offset, to a lesser extent, by a 3% decrease in sales of beta glucan. The higher sales revenue was also partially due to a higher U.S. dollar relative to the Canadian dollar compared to the comparative period, which positively impacted revenue by approximately $301,000.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

$000s	Quarters Ended September 30, 2020	2019	Change	Nine Months Ended September 30, 2020	2019	Change
Sales	3,476	2,908	20%	12,415	9,158	36%
Cost of goods sold	1,814	1,895	-4%	5,795	5,327	9%
Gross margin	1,662	1,013	64%	6,620	3,831	73%
Gross margin %	48%	35%		53%	42%	

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

During the third quarter of 2020, revenue increased by 20% but cost of goods sold decreased by 4%. The decrease in cost of goods sold despite the increase in revenue contributed to an overall increase in the gross margin percentage from 35% to 48%.

Cost of goods sold was impacted significantly from the quality of the raw material used that resulted in higher output of finished goods. At the same time, overhead, including fixed and variable costs and amortization was consistent with the comparative quarter while production volumes increased by 8% so the cost of the goods sold in the quarter was lower on per kilogram basis. During the current quarter, the Leduc manufacturing facility was shut down and the Company has moved all contents over to Edmonton.

Gross margin for the quarter was also positively impacted from a higher sales margin product mix compared with the third quarter in the prior year.

For the nine month period ended September 30, 2020, revenue increased by 36% but cost of goods sold only increased by 9%. The increase in cost of goods sold was significantly lower than the increase in revenue which has contributed to an overall increase in the gross margin percentage from 42% to 53%. Cost of goods sold and the gross margin percentage were impacted by the same factors that impacted the quarter. The gross margin was also positively impacted from a stronger U.S. dollar on sales earlier in current year.

RESEARCH AND PRODUCT DEVELOPMENT

	Quarters Ended September 30,			Nine Months Ended September 30,		
$000s	2020	2019	Change	2020	2019	Change
Salaries and benefits	178	175		585	722	
Regulatory and patents	85	32		138	280	
Clinical studies	156	38		379	655	
Other	60	63		279	263	
Total research and product development expenditures	479	308	56%	1,381	1,920	-28%

During the quarter ended September 30, 2020, research and development expenses increased by $171,000 or 56%. The increase is primarily due to higher expenditures related to the pilot clinical study for the development of beta glucan as a cholesterol reducer and by higher regulatory and patent expense.

For the nine month period ended September 30, 2020, research and development expenses have decreased by $539,000 or 28%. The decrease is primarily due to lower expenditures related to the pilot clinical study for the development of beta glucan as a cholesterol reducer, partially due to lower salaries and benefits expense and due to lower regulatory and patent expense.

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

Research and development salaries expense was lower than the prior nine month period primarily due to the receipt of $272,000 in grant funding in the current period compared to $80,000 funding in the prior period. For the current quarter the Company received $94,000 to offset salaries expense compared to $80,000 in the comparative quarter when the funding project commenced. These decreases were partially offset by the addition of a new team member to the PGX group at the beginning of the year and another new team member in September 2020.

Regulatory and patents expense will vary from period to period based on the timing of filings and maintenance payments. Part of the increase in the current quarter period is due to timing as several patent maintenance payments that came due in the comparative second quarter came due in the third quarter of the current year. Part of the overall decrease in the current nine month period is due to significant translation payments relating to new European patents on the Company's Pressurized Gas Expanded (PGX) Technology in the comparative nine month period which were not recurring payments.

Expenditures on other projects during the current nine month period are slightly higher primarily due to a final payment on a research program to study the bio-activity of new formulations of the Company's value driver active ingredients which was not incurred in the comparative period offset by the completion of other studies in the comparative period. Expenditures on other projects were comparable in the current quarter. The Company intends to continue to prioritize increased investment in research and development to be in line with the Company's business model of focusing on investing in its various enabling technologies, research on product development, and new applications for its value driving products, but the start of some of these studies are facing delays due to COVID 19.

GENERAL AND ADMINISTRATION

	Quarters Ended September 30,			Nine Months Ended September 30,		
$000s	2020	2019	Change	2020	2019	Change
Salaries and benefits	189	158		635	571	
Consulting	120	120		360	360	
Licensing activities	47	-		154	-	
Board of directors compensation	44	48		158	171	
Insurance	39	34		111	101	
Accounting and audit fees	29	16		95	85	
Rent	17	16		44	47	
Public company costs	144	104		435	379	
Travel	11	25		39	76	
Depreciation and amortization	89	90		265	268	
Legal	8	12		17	36	
Other	54	44		182	184	
Total general and administration expenses	791	667	19%	2,495	2,278	10%

General and administration expense for the quarter ended September 30, 2020 increased by $124,000 or 19% from the comparative quarter. The increase in the general and administration expense for the third quarter is primarily due to an increase in expense relating to the engagement of an international consulting company to support Ceapro's licensing activities, an increase in salaries and benefits over the comparative quarter primarily due to existing employees increasing their time spent on general and administrative functions, and due to additional investment into investor communications and advisory services. These increases were partially offset by lower travel expenses due to company-wide travel restrictions put into place as a result of the COVID 19 pandemic.

For the nine month period ended September 30, 2020, general and administration expense increased by $217,000 or 10% from the comparative period. The factors that impacted the quarter also impacted the nine month period, however the increases noted in public company costs for the nine month period were offset partially because in the prior period the Company incurred legal and other costs to uplist to the OTCQX which are not repeated in the current period.

SALES AND MARKETING

$000s	Quarters Ended September 30, 2020	2019	Change	Nine Months Ended September 30, 2020	2019	Change
Sales and marketing salaries	-	36		1	122	
Courses, conferences & advertising	13	51		89	166	
Other	-	-		-	2	
Total sales and marketing	13	87	-85%	90	290	-69%

Sales and marketing expense for the quarter ended September 30, 2020 decreased by $74,000 or 85% from the comparative quarter.

For the nine month period ended September 30, 2020, sales and marketing expense decreased by $200,000 or 69% from the comparative period.

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

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

FINANCE COSTS

$000s	Quarters Ended September 30, 2020	2019	Change	Nine Months Ended September 30, 2020	2019	Change
Interest on long-term debt	-	3		2	7	
Interest on lease liabilities	37	41		115	125	
Transaction costs	-	1		1	4	
Royalties	-	-		55	55	
Accretion of CAAP loan	6	7		16	22	
	43	52	-17%	189	213	-11%

Finance costs decreased by 17% or $9,000 in the quarter ended September 30, 2020 from $52,000 in 2019 to $43,000. The decrease in finance costs is partially attributable to lower interest on long-debt debt and lower transactions costs as the principal balance of the long-term debt was fully repaid in July 2020. The decrease is also partially attributable to lower accretion on the CAAP loan and lower interest on the lease liabilities as the principal portions of these liabilities are also lower from ongoing repayment.

Finance costs for the nine month period ended September 30, 2020 decreased by $24,000, from $213,000 in 2019 to $189,000, due to the same factors that impacted the quarter.

OTHER (INCOME) EXPENSES

$000s	Quarters Ended September 30, 2020	2019	Change	Nine Months Ended September 30, 2020	2019	Change
Foreign exchange (gain) loss	77	(13)		(27)	117	
Plant relocation costs	61	20		94	151	
Other (income) expense	6	(6)		4	(16)	
Quality management system	-	3		-	177	
	144	4	3500%	71	429	-83%

During the third quarter ended September 30, 2020, other expenses increased by $140,000 from $4,000 in 2019 to $144,000. The increase was primarily due to a significant increase in the foreign exchange loss incurred in the quarter and also partially due to an increase in expenditures relating to plant relocation costs.

During the nine month period ended September 30, 2020, the Company had other expenses of $71,000 compared with other expenses in the comparative period of 2019 of $429,000. This decrease of $358,000 was partially due to a foreign exchange gain during the current period compared to a foreign exchange loss in the comparative period, and also due to no expenditures relating to a quality management system and lower expenditures relating to plant relocation costs compared to the prior nine month period.

The Company's foreign exchange losses and gains are primarily due to the translation of US dollar denominated accounts receivable and accounts payable balances, and from the timing of the realization of these balances. Foreign exchange will fluctuate between the quarters due to fluctuations between the US dollar and the Canadian dollar. During the first quarter of 2020 the Canadian dollar weakened significantly which resulted in a $284,000 foreign exchange gain in that quarter. During the second and third quarters of 2020 the Canadian dollar started recovering resulting in a $257,000 reversal of the foreign exchange gain experienced in the first quarter and by September 30, 2020, the exchange gain incurred over the current nine month period was reduced to $27,000.

The Company's quality management system project, designed to focus policies towards consistently meeting or exceeding customer requirements and to facilitate the Company's strategic goal of transitioning to nutraceutical and pharmaceutical markets, was substantially completed in the second quarter of 2019. As a result, there were no expenditures in the first nine months of 2020.

Plant relocation costs represent costs incurred relating to the new manufacturing facility that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized. The new manufacturing facility was substantially commissioned in the fourth quarter of 2018, any remaining validation and commissioning costs are reflected in this balance but have been declining the further along from substantial completion the Company gets. Also included in this account are costs relating to additional bays of the facility that have not commenced construction. During the third quarter of 2020 the Leduc manufacturing facility was shut down and the Company has moved all contents over to Edmonton.

DEPRECIATION AND AMORTIZATION EXPENSE

In the nine month period ended September 30, 2020, the total depreciation and amortization expense was $1,383,000 which was consistent with the expense of $1,370,000 in the comparative nine month period in 2019. The expense was allocated as follows: $265,000 to general and administration expense (2019 - $268,000), $55,000 to inventory (2019 - $8,000), and $1,063,000 (2019 - $1,094,000) to cost of goods sold.

SEGMENTED FINANCIAL PERFORMANCE

The Company has two operating segments, the active ingredient product technology industry and the cosmeceutical industry. The cosmeceutical industry segment is operated through Juvente, a private company which was acquired on October 25, 2017.

Juvente is in the start-up phase, so the segment does not contribute significantly to revenue generation at this time. The segment's expenses during the current and comparative periods primarily relate to general and administrative costs and marketing costs. Although slightly lower, there was not a significant change in general and administrative expenses in Juvente between the current and comparative quarter and the current and comparative nine month period but for sales and marketing, the current quarter is approximately $71,000 lower than the comparative quarter and the current nine month period is approximately $150,000 lower than the comparative period. The decreases are primarily related to marketing and sales salaries and lower advertising expenditures which are more fully discussed in the sales and marketing section.

Juvente was acquired to execute on a strategic market diversification strategy to expand the Company's product portfolio with the development of formulations that utilize the Company's two value drivers, beta glucan and avenanthramides, and to enable the Company to enter into the high-end cosmeceuticals market and market directly to the end-user. The development of the formulations and new market would assist the Company with the strategy of utilizing the formulations as a delivery system for various bio-actives.

Quarterly Information

The following selected financial information is derived from Ceapro's unaudited quarterly financial statements for each of the last eight quarters, all of which cover periods of three months. All amounts shown are in Canadian currency.

$000s except per share data	2020			2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues	3,476	4,666	4,273	3,721	2,908	3,054	3,197	4,467
Net income (loss)	192	1,077	1,126	166	(104)	(559)	(637)	444
Basic net income (loss) per common share	0.002	0.014	0.015	0.002	(0.001)	(0.007)	(0.008)	0.006
Diluted net income (loss) per common share	0.002	0.014	0.014	0.002	(0.001)	(0.007)	(0.008)	0.006

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

Net income (loss) for the first three quarters of 2020 includes depreciation of approximately $460,000 per quarter (each of the 2019 quarters includes depreciation of approximately $456,000) which is significantly higher than comparative quarters in 2018, primarily due to depreciation on the Company's Edmonton manufacturing facility which substantially completed commissioning activities in the fourth quarter of 2018. The depreciation expense for the first three quarters of 2020 and each of the quarters in 2019 also includes depreciation of right-of-use assets relating to the adoption of IFRS 16, the lease standard, in the first quarter of 2019.

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

Significant New Accounting Standards

There were no new standards that became effective for periods beginning on or after January 1, 2020 that have a material impact on the Company's unaudited interim condensed consolidated financial statements for the quarter or nine month period ending September 30, 2020.

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

Liquidity and Capital Resources

CAPITAL EMPLOYED

$000s	September 30, 2020	December 31, 2019
Non-current assets	19,697	20,858
Current assets	9,458	6,411
Current liabilities	(1,306)	(1,741)
Total assets less current liabilities	27,849	25,528
Non-current liabilities	3,016	3,216
Shareholders' equity	24,833	22,312
Total capital employed	27,849	25,528

Non-current assets decreased by $1,161,000 primarily due to a depreciation provision of $1,381,000 and an amortization provision on licenses of $2,000 offset by the acquisition of $223,000 of property and equipment.

Current assets increased by $3,047,000 primarily due to an increase in cash from operations of $4,261,000 and an increase in inventories of $523,000, offset by a decrease in trade and other receivables in the amount of $1,725,000 and a decrease in prepaid expenses and deposits of $12,000.

Current liabilities totaling $1,306,000 decreased by the net amount of $435,000 primarily due a decrease in accounts payable and accrued liabilities of $341,000 and a decrease in the current portion of long-term debt of $112,000 as the loan was fully repaid, offset by an increase in the current portion of lease liabilities of $10,000 and an increase in the current portion of CAAP loan of $8,000.

Non-current liabilities totaling $3,016,000 decreased by the net amount of $200,000 primarily due to the repayment of lease liabilities and reallocation of current portion of the lease liabilities of $208,000, offset by an increase in the discounted CAAP loan of $8,000.

Equity of $24,833,000 at September 30, 2020 increased by $2,521,000 from equity of $22,312,000 at December 31, 2019, primarily due to the recognition of net income of $2,395,000 for the nine month period ended September 30, 2020, the recognition of share-based payment compensation of $123,000, and due to the issuance of shares from the exercise of stock options of $3,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended September 30, 2020 and 2019.

	Quarters Ended September 30,		Nine Months Ended September 30,	
$000s	2020	2019	2020	2019
Sources of funds:				
Funds generated from operations adjusted for non-cash items	712	439	4,035	414
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	14	56	14	55
Deposits relating to investing activities	50	241	-	188
Share issuance	3	3	3	17
Changes in non-cash working capital items relating to operating activities	1,375	73	859	1,039
	2,154	812	4,911	1,713
Uses of funds:				
Purchase of property and equipment	(184)	(310)	(222)	(338)
Interest paid	(37)	(43)	(117)	(132)
Repayment of long-term debt	(15)	(48)	(113)	(289)
Repayment of lease liabilities	(67)	(64)	(198)	(202)
	(303)	(465)	(650)	(961)
Net change in cash flows	1,851	347	4,261	752

Net change in cash flow was an increase of $4,261,000 during the nine month period ended September 30, 2020 in comparison with an increase of $752,000 for the comparative period. A significant reason for the difference relates to cash generated from operations of $4,894,000 (after adjustment for non-cash items and working capital items) in the current period compared to $1,453,000 of cash generated from operations in the comparative period. The other significant reason for the improvement in cash flow is that long term debt repayment in the current period was only $113,000 compared to $289,000 in the comparative period as the Company fully repaid certain loans in the prior year and then completed repayment on the last long-term debt loan in July 2020.

The Company has a positive working capital balance of $8,151,441 at September 30, 2020. The Company estimates that the cash flows generated by its existing operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, maintain capital investment, and service debt needs. However, the Company has several ongoing research and development projects, planned upcoming clinical trials, and planned installation of a new ethanol recovery system, and management will have to prioritize expenditures on those projects that are in line with our stated objectives to develop new product applications and expand to the nutraceutical sector which we consider will provide the most beneficial outcome and value to our shareholders.

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

Total common shares issued and outstanding as at November 25, 2020 were 77,621,341 (November 12, 2019 – 77,335,841). In addition, 3,048,501 stock options as at November 25, 2020 (November 12, 2019 – 2,814,501 stock options and 137,500 restricted share units) 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.

d) During the year ended December 31, 2019, the Company entered into a contribution agreement with the National Research Council of Canada's Industrial Research Assistance Program (NRC -IRAP) for non-repayable funding of up to a maximum $268,000 for costs incurred on the continued development of the Company's PGX Technology for the generation of biopolymers or drug delivery systems for deployment into the functional food, cosmetic, and drug delivery markets. During the year ended December 31, 2019, the Company received or recorded as a receivable $153,936 which was recorded as a reduction of research and development expenses. As at December 31, 2019, NRC – IRAP and the Company agreed to amend the contribution agreement to decommit $25,000 of the non-repayable funding. The agreement has been amended twice in 2020. During the first quarter of 2020, - NRC – IRAP and the Company agreed to amend the contribution agreement to increase funding by $107,000 for the period April 1, 2020 – March 31, 2022 and in October 2020, the contribution agreement was amended again to increase funding by $240,000 for the period April 1,2020 - March 31, 2022. During the nine month period ended September 30, 2020, the Company received or recorded as a receivable $272,367 which was recorded as a reduction of research and development expenses. The Company anticipates receiving an additional $123,000 between November 2020 and March 31, 2021 and $5,000 during the remainder of fiscal 2021.

Related Party Transactions

During the nine month period ended September 30, 2020, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $747,000 (2019 – $730,000) and share-based payments expense for key management personnel was $80,000 (2019 - $106,000).

The amount payable to directors at September 30, 2020 was $41,000 (2019 - $40,000). Consulting fees and key management salaries to officers included in accounts payable and accrued liabilities at September 30, 2020 was $Nil (2019 - $40,000).

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

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

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

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

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

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

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

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

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

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

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

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

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

Outlook

Our focus remains on the health and safety of our associates during this COVID-19 pandemic crisis, followed by business continuity. Depending on the evolution of the COVID-19 pandemic, we expect Ceapro's cosmeceuticals base business to continue to grow and provide positive cash flows to support the transition to a new business model from a contract manufacturer to a biopharmaceutical development company involved in nutraceuticals and pharmaceuticals. As part of new product development, the Company will emphasize the development of formulations potentially allowing delivery of bioactives through different modes of administration (oral, topical, sub-lingual, nasal spray). The development of such delivery systems being made possible using Ceapro's proprietary PGX Technology for which we have acquired pieces of equipment suitable for assembling a commercial scale unit, a key step to secure partnerships. Due to COVID-19 travelling bans, we expect to start installing this equipment during the first quarter of 2021. Beta Glucan extracted from yeast is poised to become a key strategic asset as part of the PGX strategy.

To date, the Company's business has not been significantly impacted by the COVID-19 pandemic. The Company has instituted additional preventative measures to ensure the highest level of safety for Ceapro's employees. The Company has also worked hard to mitigate any potential supply chain disruptions to ensure we can reliably continue to offer our high quality products throughout the pandemic and even beyond. Should the Company be able to service its customers without disruption, management believes the prospects for the Company remain strong for the upcoming year.

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

Additional Information

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

Unaudited Condensed Consolidated Financial Statements for the Third Quarter Ended September 30, 2020

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

	September 30, 2020	December 31, 2019
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	6,118,403	1,857,195
Trade receivables	1,838,092	3,659,541
Other receivables	143,187	46,812
Inventories (note 3)	1,191,675	669,005
Prepaid expenses and deposits	166,437	178,908
	9,457,794	6,411,461
Non-Current Assets		
Investment tax credits receivable	607,700	607,700
Deposits	85,755	85,755
Licences (note 4)	19,255	21,477
Property and equipment (note 5)	18,605,763	19,764,122
Deferred tax assets	378,643	378,643
	19,697,116	20,857,697
TOTAL ASSETS	29,154,910	27,269,158
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	949,813	1,291,204
Current portion of long-term debt (note 6)	-	111,865
Current portion of lease liabilities (note 7)	275,726	265,123
Current portion of CAAP loan (note 9)	80,814	72,942
	1,306,353	1,741,134
Non-Current Liabilities		
Long-term lease liabilities (note 7)	2,567,487	2,775,627
CAAP loan (note 9)	69,621	61,580
Deferred tax liabilities	378,643	378,643
	3,015,751	3,215,850
TOTAL LIABILITIES	4,322,104	4,956,984
Equity		
Share capital (note 8 (b))	16,507,998	16,401,677
Contributed surplus (note 8 (e))	4,669,684	4,650,090
Retained earnings	3,655,124	1,260,407
	24,832,806	22,312,174
TOTAL LIABILITIES AND EQUITY	29,154,910	27,269,158

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

CEAPRO INC.

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

Unaudited

	Quarters Ended September 30, 2020	2019	Nine Months Ended September 30, 2020	2019
	$	$	$	$
Revenue (note 15)	3,475,625	2,907,980	12,414,970	9,158,637
Cost of goods sold	1,814,080	1,894,570	5,794,573	5,327,161
Gross margin	1,661,545	1,013,410	6,620,397	3,831,476
Research and product development	478,993	307,477	1,381,332	1,919,875
General and administration	791,217	666,640	2,494,514	2,278,279
Sales and marketing	12,395	87,176	89,830	289,956
Finance costs (note 12)	43,066	51,865	189,258	213,052
Income (loss) from operations	335,874	(99,748)	2,465,463	(869,686)
Other income (expenses) (note 11)	(144,251)	(3,766)	(70,746)	(429,047)
Income (loss) before tax	191,623	(103,514)	2,394,717	(1,298,733)
Income taxes	-	-	-	-
Total comprehensive income (loss) for the period	191,623	(103,514)	2,394,717	(1,298,733)
Net income (loss) per common share (note 18):				
Basic	0.00	(0.00)	0.03	(0.02)
Diluted	0.00	(0.00)	0.03	(0.02)
Weighted average number of common shares outstanding (note 18):				
Basic	77,610,113	77,313,015	77,585,679	77,138,854
Diluted	78,700,415	77,313,015	78,039,105	77,138,854

See accompanying notes

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

	Share capital $	Contributed surplus $	Retained earnings $	Total equity $
Balance December 31, 2019	16,401,677	4,650,090	1,260,407	22,312,174
Share-based payments (note 8 (c) & (d))	-	122,902	-	122,902
Share options exercised	4,909	(1,896)	-	3,013
Restricted share units vested (note 8 (d))	101,412	(101,412)	-	-
Net income for the period	-	-	2,394,717	2,394,717
Balance September 30, 2020	16,507,998	4,669,684	3,655,124	24,832,806
Balance December 31, 2018	16,320,522	4,501,444	2,393,035	23,215,001
Share-based payments (note 8 (c) & (d))	-	185,557	-	185,557
Restricted share units vested (note 8 (d))	52,938	(52,938)	-	-
Share options exercised	28,217	(10,933)	-	17,284
Net loss for the period	-	-	(1,298,733)	(1,298,733)
Balance September 30, 2019	16,401,677	4,623,130	1,094,302	22,119,109

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

Nine Months Ended September 30,	2020 $	2019 $
OPERATING ACTIVITIES		
Net income (loss) for the period	2,394,717	(1,298,733)
Adjustments for items not involving cash		
Finance costs	117,237	132,161
Transaction costs	1,108	3,633
Depreciation and amortization	1,382,838	1,369,653
Foreign exchange gain on long-term debt	-	(307)
Accretion	15,913	22,258
Share-based payments	122,902	185,557
Net income (loss) for the period adjusted for non-cash items	4,034,715	414,222
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	1,821,449	705,254
Other receivables	(96,375)	(16,754)
Inventories	(522,670)	(258,444)
Prepaid expenses and deposits	12,471	257,010
Accounts payable and accrued liabilities relating to operating activities	(355,552)	351,547
Total changes in non-cash working capital items	859,323	1,038,613
Net income (loss) for the period adjusted for non-cash and working capital items	4,894,038	1,452,835
Interest paid	(117,237)	(132,161)
CASH GENERATED FROM OPERATIONS	4,776,801	1,320,674
INVESTING ACTIVITIES		
Purchase of property and equipment	(222,610)	(338,548)
Proceeds from sale of equipment	353	-
Deposits relating to investment in equipment	-	187,790
Accounts payable and accrued liabilities relating to investing activities	14,161	54,933
CASH USED IN INVESTING ACTIVITIES	(208,096)	(95,825)
FINANCING ACTIVITIES		
Stock options exercised	3,013	17,284
Repayment of long-term debt	(112,973)	(288,617)
Repayment of lease liabilities	(197,537)	(201,850)
CASH USED IN FINANCING ACTIVITIES	(307,497)	(473,183)
Increase in cash and cash equivalents	4,261,208	751,666
Cash and cash equivalents at beginning of the period	1,857,195	1,844,134
Cash and cash equivalents at end of the period	6,118,403	2,595,800

See accompanying notes

Cash and cash equivalents are comprised of $6,111,565 (2019 - $2,588,962) on deposit with financial institutions and $6,838 (2019 - $6,838) held in money market mutual funds.

1. NATURE OF BUSINESS OPERATIONS

Ceapro Inc. (the "Company") is incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange under the symbol CZO and on the OTCQX® Best Market under the symbol CRPOF. The Company's primary business activities relate to the development and marketing of various health and wellness products and technology relating to plant extracts.

The Company's head office address is 7824 51 Avenue NW, Edmonton, AB T6E 6W2.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of consolidated financial statements, including IFRS 34, "Interim Financial Reporting". The accounting principles and methods of computation adopted in these financial statements are the same as those of the annual financial statements for the year ended December 31, 2019.

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements. The financial statements and notes presented should be read in conjunction with the annual financial statements for the year ended December 31, 2019.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on November 25, 2020.

b) Basis for presentation

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., Ceapro USA Inc., and Juvente^{DC} Inc.

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

c) COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the rapidly spreading coronavirus disease (COVID-19) outbreak a pandemic. This pandemic has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in an economic downturn. The Company is continually monitoring the potential impact of this pandemic on its operations and, to the date of the authorization of these consolidated financial statements, has not been significantly negatively impacted. The Company is taking measures to ensure the safety of our staff and customers and to mitigate any risks from COVID-19 relating to our manufacturing locations. However, Covid-19 may affect our operations, our suppliers, and our customers in the future. While we would expect this to be temporary, there is uncertainty around the duration of the pandemic and its broader impact. The extent to which the pandemic will impact the Company's results will depend on further developments which are highly uncertain and cannot be predicted with great certainty.

Management will continue to monitor and assess the impact of the pandemic on its judgments, estimates, accounting policies and amounts recognized in these condensed interim consolidated financial statements. Potential impacts may include, but are not limited to, impairment of property and equipment, write-downs of inventory and a change in the estimated credit loss on accounts receivable. For the period ended September 30, 2020, the Company has assessed the possible impacts of COVID-19 on its financial results and no changes to estimates or carrying amounts are required.

3. INVENTORIES

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

	September 30, 2020	December 31, 2019
	$	$
Raw materials	718,646	483,203
Work in progress	99,276	37,307
Finished goods	373,753	148,495
	1,191,675	669,005

Inventories expensed to cost of goods sold during the nine and three month periods ended September 30, 2020 are $5,584,524 and $1,746,793 respectively (September 30, 2019 - $5,180,603 and $1,832,944).

4. LICENCES

During the year ended December 31, 2014, and as amended on February 2, 2015, the Company entered into a licence agreement with the University of Alberta for the rights to a technology that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients for all industrial applications. The agreement expires after a term of 20 years or after the expiration of the last patent obtained, whichever event shall occur first. There is no initial licence fee, but the Company is required to make royalty payments (see note 14 (b)).

During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and commenced amortizing the licence over 15 years in April 2012. Amortization of $2,222 has been included in general and administration for the nine month period ended September 30, 2020 (September 30, 2019 - $2,222) (see note 14 (a)).

Cost of licences	$
Balance - December 31, 2019	44,439
Additions	-
Balance - September 30, 2020	44,439
Accumulated amortization	
Balance - December 31, 2019	22,962
Amortization	2,222
Balance - September 30, 2020	25,184
Net book value	
Balance - September 30, 2020	19,255
Balance - December 31, 2019	21,477

5. PROPERTY AND EQUIPMENT

	Equipment not available for use	Manufacturing Equipment	Office Equipment	Computer Equipment	Buildings	Leasehold Improvements	Total
Cost	$	$	$	$	$	$	$
December 31, 2019	1,518,826	11,482,127	319,219	472,489	3,306,743	8,812,471	25,911,875
Additions	-	210,884	-	11,726	-	-	222,610
Disposals	-	-	-	(650)	-	-	(650)
September 30, 2020	1,518,826	11,693,011	319,219	483,565	3,306,743	8,812,471	26,133,835
Accumulated Depreciation							
December 31, 2019	-	4,068,610	234,613	407,704	338,490	1,098,336	6,147,753
Additions	-	599,682	12,691	15,641	253,867	498,735	1,380,616
Disposals	-	-	-	(297)	-	-	(297)
September 30, 2020	-	4,668,292	247,304	423,048	592,357	1,597,071	7,528,072
Carrying Amount							
September 30, 2020	1,518,826	7,024,719	71,915	60,517	2,714,386	7,215,400	18,605,763
December 31, 2019	1,518,826	7,413,517	84,606	64,785	2,968,253	7,714,135	19,764,122

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Nine Months Ended September 30, 2020	1,063,150	54,589	262,877	1,380,616
Nine Months Ended September 30, 2019	1,094,073	7,460	265,898	1,367,431

Included in the net carrying amount of property and equipment at September 30, 2020, are right-of-use assets relating to buildings, in the amount of $2,714,386 (December 31, 2019 - $2,968,253).

Included in the carrying amount of leasehold improvements is the amount of $1,027,364 (December 31, 2019 - $1,027,364) and $1,518,826 of equipment not available for use (December 31, 2019 - $1,518,826) which represent the accumulated expenditures incurred on the purchase of an ethanol recovery system, other equipment, and the engineering design for the related construction and installation of the system. At September 30, 2020, no amortization has commenced on these balances as construction and installation activities have not commenced.

The Company has entered into an agreement to purchase specialized equipment for 150,000 Euro, that will be used to develop the PGX technology to commercial scale level. The purchase is expected to be completed in 2021 and based on the exchange rate at September 30, 2020, the estimated payments will be approximately $234,000.

6. LONG-TERM DEBT

	September 30, 2020 $	December 31, 2019 $
Loan payable secured by a general security agreement, due July, 2020	-	112,973
Transaction costs	-	(1,108)
	-	111,865
Less current portion	-	111,865
	-	-

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

Nine Months Ended September 30, 2020	2,024
Nine Months Ended September 30, 2019	6,840

During the year ended December 31, 2015, the Company entered into a loan agreement with AFSC for a maximum of $900,000, which was due July 1, 2020. The loan was repayable over a 5-year term, and had an interest rate of 3.84%. Monthly blended principal and interest payments in the amount of $16,483 commenced on August 1, 2015. The loan was secured by a general security agreement covering all present and after acquired personal property. The loan has been fully repaid at September 30, 2020.

7. LEASE LIABILITIES

The Company has leases for manufacturing facilities, office space, and warehouse. The lease liabilities consist of leases of buildings. The leases have been discounted using a 5.24% interest rate.

	Nine Months Ended September 30, 2020 $	Year Ended December 31, 2019 $
Balance at beginning of period	3,040,750	3,306,743
Additions	-	-
Interest expense	116,076	152,158
Lease payments	(313,613)	(418,151)
Balance at end of period	2,843,213	3,040,750
Less current portion	275,726	265,123
	2,567,487	2,775,627

Future minimum lease payments at September 30, 2020 are as follows:

	Within one year $	One to five years $	More than five years $	Total $
Lease payments	418,151	1,532,105	1,640,570	3,590,826
Finance charges	142,425	423,290	181,898	747,613
Net present values	275,726	1,108,815	1,458,672	2,843,213

Subsequent to the quarter, the Company entered into a lease modification agreement on its warehouse building lease, extending the recognized lease term by approximately two years to March 31, 2025.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020 $	2019 $
Short-term leases	44,075	45,048	136,714	141,073

At September 30, 2020, the Company was committed to short term leases and the total commitment at that date was $18,820.

8. SHARE CAPITAL

a. Authorized

   i. Unlimited number of Class A voting common shares. Class A common shares have no par value.

   ii. Unlimited number of Class B non-voting common shares. There are no issued Class B shares.

b. Issued - Class A common shares

	Nine Months Ended September 30, 2020		Year Ended December 31, 2019	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance at beginning of the period	77,335,841	16,401,677	77,045,008	16,320,522
Stock options exercised	8,000	4,909	153,333	28,217
Restricted share units vested	272,500	101,412	137,500	52,938
Balance at end of the period	77,616,341	16,507,998	77,335,841	16,401,677

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

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

c. Stock Option Share-Based Payment Plan

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

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the nine month period ended September 30, 2020, the Company granted 395,000 (September 30, 2019 – 420,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock, life of the options, and forfeiture rate. The weighted average risk-free rate used in 2020 was 1.62% (2019 – 1.91%), the weighted average expected volatility was 72% (2019 - 80%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years (2019 – 5 years), the forfeiture rate was 0% (2019 - 0%), the weighted average share price was $0.36 (2019 – $0.385), the weighted average exercise price was $0.36 (2019 – $0.385), and the expected dividends were nil (2019 - nil). The weighted average grant date fair value of options granted in the nine month period ended September 30, 2020 was $0.21 (2019 - $0.25) per option.

The share-based payments expense recorded during the current period relating to options granted in 2020, 2019 and 2018 was $72,356 (during 2019 relating to options granted in 2019, 2018 and 2017 - $92,588).

A summary of the status of the Company's stock options at September 30, 2020 and December 31, 2019 and changes during the periods ended on those dates is as follows:

	Nine Months Ended September 30, 2020		Year Ended December 31, 2019	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the period	2,801,168	0.62	2,635,334	0.61
Granted	395,000	0.36	420,000	0.39
Exercised	(8,000)	0.38	(153,333)	0.11
Forfeited	(16,667)	0.54	(100,833)	0.40
Outstanding at end of period	3,171,501	0.54	2,801,168	0.62
Exercisable at end of period	2,777,334	0.60	2,454,501	0.65

Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	September 30, 2020 Number of Options	December 31, 2019 Number of Options
0.21	0.36	2025	4.3	392,334	-
0.25	0.39	2024	3.3	383,833	395,834
0.10	0.33	2020	-	60,000	60,000
0.47	0.50	2028	7.3	210,000	210,000
0.56	0.59	2027	7.3	90,000	90,000
1.22	1.30	2027	6.6	10,000	10,000
1.65	1.75	2027	6.3	400,000	400,000
0.34	0.36	2025	4.6	150,000	150,000
0.47	0.50	2025	4.3	100,000	100,000
0.60	0.64	2025	4.3	755,334	765,334
0.37	0.27	2024	4.1	150,000	150,000
0.08	0.10	2024	3.3	300,000	300,000
0.05	0.10	2023	2.3	170,000	170,000
			4.4	3,171,501	2,801,168

d. Restricted Share Unit Share-Based Payment Plan

Effective June 1, 2017, the Company adopted a restricted share unit plan, which provides for the grant of restricted share units ("RSU's") to existing or proposed directors, employees, and consultants of the Company and its subsidiaries or any insider of the Company and its subsidiaries. Under the plan, the maximum number of common shares that may be reserved for issuance is fixed at 1,000,000. On the vesting of RSU's, the common shares of the Company will be issued from the same 10% rolling pool as the common shares issued under the stock option plan. The obligations under the RSU plan can be settled at the Company's discretion through either the issuance of cash or the issuance of common shares. The Company intends to settle the obligations through the issuance of common shares.

During the nine month period ended September 30, 2020, the Company granted 140,000 RSU's to employees, officers, and directors of the Company. The fair market value of each RSU granted was measured at $0.36, based on the quoted closing price of the Company's stock on the date of grant. The RSU's vested on January 31, 2020 and were converted to common shares during the current period.

During the nine month period ended September 30, 2019, the Company granted 280,000 RSU's to all employees, officers, and directors of the Company. The market value of each RSU granted was measured at $0.385, based on the quoted closing price of the Company's stock on the trading day immediately preceding the date of grant. The RSU's vested in two equal instalments, the first of which vested on July 1, 2019 and the second on January 1, 2020. The fair value of the RSU's is recognized over the vesting periods with reference to vesting conditions and the estimated RSU's expected to vest.

The share-based payments expense recorded during the nine month period ended September 30, 2020, relating to the granting of RSU's, was $50,546 (2019 - $92,969).

A summary of the status of the Company's RSU's at September 30, 2020 and December 31, 2019 and changes during the periods ended on those dates is as follows:

	Nine Months Ended September 30, 2020 Number of RSU's	Year Ended December 31, 2019 Number of RSU's
Balance at beginning of the period	132,500	-
Granted	140,000	280,000
Forfeited	-	(10,000)
Vested	(272,500)	(137,500)
Balance at end of period	-	132,500

Of the 1,000,000 RSU's authorized for grant under the RSU plan, at September 30, 2020, 370,000 RSU's are available for grant (December 31, 2019 – 510,000).

e. Contributed surplus

	Nine Months Ended September 30, 2020 $	Year Ended December 31, 2019 $
Balance at beginning of the period	4,650,090	4,501,444
Share-based payments (note 8 (c) & (d))	122,902	212,517
Restricted share units vested	(101,412)	(52,938)
Stock options exercised	(1,896)	(10,933)
Balance at end of the period	4,669,684	4,650,090

9. CAAP LOAN

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

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

The balance of repayable contribution is derived as follows:

	Nine Months Ended September 30, 2020 $	Year Ended December 31, 2019 $
Opening balance	134,522	188,158
Repayment	-	(83,884)
Accretion of CAAP loan	15,913	30,248
	150,435	134,522
Less current portion	80,814	72,942
	69,621	61,580

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

10. RELATED PARTY TRANSACTIONS

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

Nine Months Ended September 30,	2020 $	2019 $
Key management salaries, short-term benefits, consulting fees, and director fees	746,609	729,748
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	-	40,000
Key management personnel share-based payments	79,751	105,668
Amount payable to directors	40,561	39,927

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

11. OTHER (INCOME) EXPENSES

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	$	$	$	$
Foreign exchange (gain) loss	77,193	(12,292)	(26,843)	117,538
Other expense (income)	5,823	(6,559)	3,615	(16,080)
Plant relocation costs	61,235	19,992	93,974	151,060
Quality management system	-	2,625	-	176,529
	144,251	3,766	70,746	429,047

12. FINANCE COSTS

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	$	$	$	$
Interest on long-term debt	25	2,663	2,024	6,840
Interest on lease liabilities	37,538	40,952	115,213	125,321
Transaction costs	-	553	1,108	3,633
Royalties	-	-	55,000	55,000
Accretion of CAAP loan	5,503	7,697	15,913	22,258
	43,066	51,865	189,258	213,052

13. EMPLOYEE BENEFITS

	Quarters Ended September 30, 2020	2019	Nine Months Ended September 30, 2020	2019
	$	$	$	$
Employee benefits	972,649	956,466	3,097,348	3,183,035

Employee benefits include wages, salaries, bonuses, and CPP, EI, WCB contributions, share-based payment expense, and benefit premiums. Employee benefits are included in cost of goods sold, general and administration, research and product development, and sales and marketing expenses.

14. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

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

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

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

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

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

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

15. SEGMENTED INFORMATION

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

The active ingredient product technology industry involves the development of proprietary extraction technologies and the application of these technologies to the production and development and commercialization of active ingredients derived from oats and other renewable plant resources for healthcare and cosmetic industries. Active ingredients produced include 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 products stores.

Geographic Information

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	$	$	$	$
United States	3,180,388	1,923,574	8,745,981	5,637,127
Germany	190,680	445,499	2,474,880	1,952,114
China	82,665	521,102	1,098,271	1,484,623
Other	14,122	9,034	51,638	59,712
Canada	7,770	8,771	44,200	25,061
	3,475,625	2,907,980	12,414,970	9,158,637

During the nine month period ended September 30, 2020, the Company had export sales to one major distributor of the Company's products in the aggregate amount of $11,202,378 representing 90% of total revenue (2019 - $7,733,830 representing 84% 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:

Nine months ended September 30, 2020:

	Active Ingredient Product Technology Industry	Cosmeceutical Industry	Total
	$	$	$
Revenue from external sales	12,398,431	16,539	12,414,970
Gross margin	6,621,606	(1,209)	6,620,397
Other income (expenses)	(70,746)	-	(70,746)
Income (loss) before tax	2,675,450	(280,733)	2,394,717
Income tax benefit	-	-	-
Net income (loss) and comprehensive income (loss)	2,675,450	(280,733)	2,394,717
Depreciation and amortization	1,381,493	1,345	1,382,838
Share-based payments	122,902	-	122,902
Additions to property and equipment	222,610	-	222,610

Three months ended September 30, 2020:

	Active Ingredient Product Technology Industry	Cosmeceutical Industry	Total
	$	$	$
Revenue from external sales	3,470,434	5,191	3,475,625
Gross margin	1,659,899	1,646	1,661,545
Other income (expenses)	(144,251)	-	(144,251)
Income (loss) before tax	254,630	(63,007)	191,623
Income tax benefit	-	-	-
Net income (loss) and comprehensive income (loss)	254,630	(63,007)	191,623
Depreciation and amortization	461,868	449	462,317
Share-based payments	14,755	-	14,755
Additions to property and equipment	184,380	-	184,380

At September 30, 2020:

	Active Ingredient Product Technology Industry	Cosmeceutical Industry	Total
	$	$	$
Property and equipment	18,599,738	6,025	18,605,763
Segment assets	28,881,172	273,738	29,154,910
Segment liabilities	4,290,901	31,203	4,322,104

Nine months ended September 30, 2019:

	Active Ingredient Product Technology Industry	Cosmeceutical Industry	Total
	$	$	$
Revenue from external sales	9,143,444	15,193	9,158,637
Gross margin	3,828,592	2,884	3,831,476
Other income (expenses)	(429,047)	-	(429,047)
Income (loss) before tax	(858,183)	(440,550)	(1,298,733)
Income tax benefit	-	-	-
Net income (loss) and comprehensive income (loss)	(858,183)	(440,550)	(1,298,733)
Depreciation and amortization	1,367,872	1,781	1,369,653
Share-based payments	185,557	-	185,557
Additions to property and equipment	3,644,641	650	3,645,291

Three months ended September 30, 2019:

	Active Ingredient Product Technology Industry	Cosmeceutical Industry	Total
	$	$	$
Revenue from external sales	2,903,779	4,201	2,907,980
Gross margin	1,012,242	1,168	1,013,410
Other income (expenses)	(3,766)	-	(3,766)
Income (loss) before tax	36,416	(139,930)	(103,514)
Income tax benefit	-	-	-
Net income (loss) and comprehensive income (loss)	36,416	(139,930)	(103,514)
Depreciation and amortization	456,308	594	456,902
Share-based payments	33,540	-	33,540
Additions to property and equipment	310,937	-	310,937

At December 31, 2019:

	Active Ingredient Product Technology Industry	Cosmeceutical Industry	Total
	$	$	$
Property and equipment	19,756,400	7,722	19,764,122
Segment assets	27,074,486	194,672	27,269,158
Segment liabilities	4,935,580	21,404	4,956,984

16. FINANCIAL INSTRUMENTS

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

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

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 is not materially different from its carrying amount as funding received has been discounted using an estimate of a market rate of interest and is being accreted back to its nominal amount (Level 2).

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

	September 30, 2020		December 31, 2019	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Cash and cash equivalents	$ 6,118,403	$ 6,118,403	$ 1,857,195	$ 1,857,195
Trade and other receivables	1,981,279	1,981,279	3,706,353	3,706,353
Financial liabilities:				
Accounts payable and accrued liabilities	$ 949,813	$ 949,813	$ 1,291,204	$ 1,291,204
Long-term debt	-	-	111,865	111,865
CAAP loan	150,435	150,435	134,522	134,522

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

a) Credit risk

Trade and other receivables

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 85% of trade receivables are due from one distributor at September 30, 2020 (December 31, 2019 – 97% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	September 30, 2020 $	December 31, 2019 $
Not yet due	1,142,184	1,481,978
Less than 30 days past due	612,740	1,954,651
Less than 60 days past due, more than 30 days past due	83,168	-
More than 60 days past due	-	222,912
Total	1,838,092	3,659,541

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

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company-wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward-looking estimates. The expected credit losses calculated for September 30, 2020 and December 31, 2019 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 $6,118,403 at September 30, 2020 (December 31, 2019 - $1,857,195) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

The following are the contractual maturities of the Company's financial liabilities and obligations at September 30, 2020:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	949,813	-	-	-	949,813
CAAP loan	83,884	83,884	-	-	167,768
Total	1,033,697	83,884	-	-	1,117,581

c) Market risk

Market risk is comprised of interest rate risk, foreign currency risk, and other price risk. The Company's exposure to market risk is as follows:

1. Foreign currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company.

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	1,377,518	13,775	(13,775)
Financial liabilities			
Accounts payable and accrued liabilities	12,981	(130)	130
Total increase (decrease)		13,645	(13,645)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and represents the Company's exposure at September 30, 2020.

2. Interest rate risk

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

17. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the period ended September 30, 2020.

18. INCOME (LOSS) PER COMMON SHARE

	Quarters Ended September 30, 2020	Quarters Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net income (loss) for the period for basic and diluted earnings per share calculation	$191,623	($103,514)	$2,394,717	($1,298,733)
Weighted average number of common shares outstanding	77,610,113	77,313,015	77,585,679	77,138,854
Effect of dilutive stock options and warrants	1,090,302	-	453,426	-
Diluted weighted average number of common shares	78,700,415	77,313,015	78,039,105	77,138,854
Income (loss) per share - basic	$0.00	($0.00)	$0.03	($0.02)
Income (loss) per share - diluted	$0.00	($0.00)	$0.03	($0.02)

For the nine month period ended September 30, 2020, 1,838,667 stock options outstanding have not been included in the diluted income per share calculation because the options' exercise price was greater than the average market price of the common shares during the period.

For the quarter ended September 30, 2020, 410,000 stock options outstanding have not been included in the diluted income per share calculation because the options' exercise price was greater than the average market price of the common shares during the period.

As the Company was in a net loss position for the three and nine month period ended September 30, 2019, the impact of the conversion of convertible securities is anti-dilutive.