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Q3 2022



Unaudited Condensed Consolidated
Financial Statements for the
Third Quarter ended September 30, 2022

Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the periods ended September 30, 2022 and 2021, the financial position as at September 30, 2022, and the outlook of Ceapro Inc. ("Ceapro" and "the Company") based on information available as at November 8, 2022. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at September 30, 2022, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2021, 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, 2021. All comparative percentages are between the periods ended September 30, 2022 and 2021 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 8, 2022 and contains forward-looking statements. Forward-looking statements and information can generally be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", "plans" or similar terminology. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

Vision, Core Business, and Strategy

Ceapro is incorporated under the Canada Business Corporations Act; and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc., are incorporated under the Alberta Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Juvente^{DC} Inc. (Juvente), is a wholly-owned subsidiary incorporated under the Canada Business Corporations Act. Effective December 31, 2021, the Company wound up Ceapro Technology Inc., Ceapro Active Ingredients Inc. and Ceapro BioEnergy Inc. into the Company and dissolved Ceapro USA Inc.

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

Our products include:

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

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

- A potential platform using our *beta glucan* formulations to deliver compounds used for treatments in both personal and healthcare sectors;
- A variety of novel enabling technologies including Pressurized Gas eXpanded drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds; and
- The development of new technologies to increase the content of avenanthramides to high levels to enable new innovative products to be introduced to new markets including functional foods, nutraceuticals, and botanical drugs.

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

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

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

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

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

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

Results of Operations

Periods Ended September 30, 2022 and 2021

CONSOLIDATED INCOME STATEMENT

\$000s except per share data	Quarters				Nine Months			
	Ended September 30,		Ended September 30,		Ended September 30,		Ended September 30,	
	2022	%	2021	%	2022	%	2021	%
Total revenues	3,845	100%	4,523	100%	15,517	100%	13,633	100%
Cost of goods sold	1,767	46%	1,574	35%	5,845	38%	5,788	42%
Gross margin	2,078	54%	2,949	65%	9,672	62%	7,846	58%
Research and product development	314	8%	1,403	31%	1,213	8%	3,051	22%
General and administration	869	23%	767	17%	2,707	17%	2,432	18%
Sales and marketing	6	0%	5	0%	21	0%	35	0%
Finance costs	31	1%	38	1%	152	1%	170	1%
Income from operations	857	22%	737	16%	5,579	36%	2,159	16%
Other (income) expenses	(271)	-7%	(138)	-3%	(340)	-2%	92	1%
Income before tax	1,128	29%	875	19%	5,919	38%	2,067	15%
Deferred income tax expense	267	7%	-	0%	1,398	9%	-	0%
Net income	862	22%	875	19%	4,520	29%	2,067	15%
Basic net income per common share	0.01		0.01		0.06		0.03	
Diluted net income per common share	0.01		0.01		0.06		0.03	

The following sections discuss the consolidated results from operations.

Revenue

\$000s	Quarters			Nine Months		
	Ended September 30,	Ended September 30,	Change	Ended September 30,	Ended September 30,	Change
	2022	2021		2022	2021	
Total revenues	3,845	4,523	-15%	15,517	13,633	14%

Revenue for the quarter ended September 30, 2022, was lower than the comparative quarter in 2021 by approximately \$678,000 or 15%. The decrease was primarily driven by a 17% decrease in product sales volume over the comparative quarter due to lower sales of the Company's flagship product avenanthramides which was partially offset by an increase in sales of the value driver product beta glucan. Sales of avenanthramides were lower due to the timing of customer orders. The lower sales revenue was partially offset by a higher U.S. dollar relative to the Canadian dollar compared to the prior quarter which positively impacted revenue by approximately \$121,000.

Revenue for the first nine months ended September 30, 2022, increased by approximately \$1,884,000 or 14% over the comparative period in 2021. The increase in sales revenue was primarily driven by a 93% increase in the sale of beta glucan but also by a 2% increase in the sale of avenanthramides. The higher sales revenue was also partially due to a higher U.S. dollar relative to the Canadian dollar compared to the prior period which positively impacted revenue by approximately \$307,000.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

\$000s	Quarters Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Sales	3,845	4,523	-15%	15,517	13,633	14%
Cost of goods sold	1,767	1,574	12%	5,845	5,788	1%
Gross margin	2,078	2,949	-30%	9,672	7,846	23%
Gross margin %	54%	65%		62%	58%	

Cost of goods sold is comprised of the direct raw materials required for the specific formulation of products, as well as direct labour, quality assurance and control, packaging, transportation costs, plant costs, and amortization on property and equipment.

During the quarter ended September 30, 2022, revenue decreased by approximately 15% and cost of goods sold increased by 12%, this resulted in a decrease in the gross margin percentage from 65% in the prior quarter to 54% in the current quarter.

For the nine month period ended September 30, 2022, revenue increased by approximately 14% and cost of goods sold only increased by 1%, this resulted in an increase in the gross margin percentage from 58% in the prior period to 62% in the current nine month period.

During the current nine month period, the cost of raw materials used in the production of our products have been increasing nearly across the board, however, the production and sale of goods in the current year to date primarily used work in progress from the prior year, alleviating some of the impact of inflation that we continue to experience, and at the same time, last season's high-quality grain was used in that work in progress, and so the finished goods output from this grain was very high and therefore generated significant production output. The cost benefit of the high production output from the same amount of work in progress was more beneficial than the negative impact from cost increases from other raw materials and from an overall increase in overhead expenses. Because the cost of goods sold for the current nine month period only increased slightly over the comparative nine month period, and at the same time sales increased by 14%, the overall gross margin for the current nine month period was higher than the comparative nine month period.

During the current quarter the Company had used up all of the work in progress that had been manufactured with the higher yielding grain and so the work in progress used to produce finished goods did not generate as significant a benefit from high output. Without that offsetting benefit, the cost of goods sold for the current quarter has started to reflect the increased cost of raw materials. Overhead expense has also increased. As a result, cost of goods sold for the current quarter was higher than the prior quarter. The increase in cost of goods sold expense for the current quarter, despite a decrease in sales in the current quarter, has resulted in a lower gross margin for the current quarter compared to the prior quarter.

RESEARCH AND PRODUCT DEVELOPMENT

\$000s	Quarters			Nine Months		
	Ended September 30,			Ended September 30,		
	2022	2021	Change	2022	2021	Change
Salaries and benefits	191	281		588	794	
Regulatory and patents	3	6		115	145	
Clinical study - avenanthramides	71	71		307	110	
Clinical study - beta glucan	-	856		-	1,594	
Other	49	189		203	408	
Total research and product development expenditures	314	1,403	-78%	1,213	3,051	-60%

During the quarter ended September 30, 2022, research and development expenses decreased by \$1,089,000 or 78%. The decrease is primarily due to the completion of a pilot clinical study for the development of beta glucan as a cholesterol reducer in 2021, lower salaries and benefits expense, and lower expenditures on other projects in the current quarter.

For the nine month period ended September 30, 2022, research and development expenses have decreased by \$1,838,000 or 60% primarily due to the completion of the pilot clinical study for the development of beta glucan as a cholesterol reducer in 2021, lower salaries and benefit expense and lower expenditures on other projects offset by an increase in expenditures in the current nine month period relating to the upcoming clinical study on avenanthramides.

Regulatory and patents expense, while slightly lower than the comparative prior periods, has been relatively consistent and will vary from period to period based on the timing of filings and maintenance payments.

Research and development salaries expense is presented net of grant funding. The salaries expense is lower in both the current quarter and nine month period compared to the prior comparative periods primarily due to higher grant funding received in the current periods.

Expenditures on other projects during the current quarter and nine month period are lower compared to the prior comparative periods primarily due to the initiation of a new in-vivo study on our active ingredients in the comparative periods. The decrease for the nine month period is also partially attributable to the receipt of grant funding against contractor fees for PGX related projects in the current nine month period for which there was no associated funding in the comparative nine month period.

Expenditures relating to the new clinical study on avenanthramides have increased significantly in the current nine month period largely due to the manufacturing of avenanthramide doses in preparation for use in the upcoming clinical study. Expenditures in the first quarter of 2022 and the comparative periods relate primarily to the development of the drug formulation to be used in the study and the development and finalization of the study protocol which has now been filed with Health Canada.

While current quarter and nine month period expenditures are lower, the Company expects research and development spending to increase in future periods, especially once the Company receives approval from Health Canada to start the Avenanthramide study. Significant investment in research and development is in line with the Company's business model of focusing on investing in its various enabling technologies, research on product development, and new applications for its value driving products.

GENERAL AND ADMINISTRATION

\$000s	Quarters Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Salaries and benefits	286	186		819	554	
Consulting	120	120		440	440	
Licensing activities	39	66		133	198	
Board of Directors compensation	120	41		254	122	
Insurance	54	47		153	127	
Accounting and audit fees	17	27		93	88	
Rent	18	17		54	50	
Public company costs	65	96		250	372	
Travel	17	12		44	18	
Depreciation and amortization	91	85		257	253	
Legal	-	1		20	17	
Other	42	69		190	193	
Total general and administration expenses	869	767	13%	2,707	2,432	11%

General and administration expense for the quarter ended September 30, 2022 increased by \$102,000 or 13% from the comparative quarter. Salaries and benefits expense increased significantly, primarily due to a new hire in the accounting department and a new hire for corporate development compared to the prior quarter, and due to inflationary increases in salaries and wages. Board of Directors compensation also increased during the quarter primarily due to an increase in director base compensation to better realign the compensation to market. Base director fees had not been increased in over 10 years. Director fees also were higher than the comparative quarter due to share-based payment expense relating to the granting of stock options to a new director. These notable increases were offset partially by a decrease in public company costs primarily because one of the investors communications programs still in place in the first nine months of 2021 was scaled back by the end of 2021 and is not reflected in the current quarter or nine month period. Licensing activities expense also decreased compared to the prior quarter, as there were additional fees paid for evaluating the feasibility of additional opportunities in Europe in the prior quarter and this was not done in the current quarter.

For the nine month period ended September 30, 2022, general and administration expense increased by \$275,000 or 11% over the comparative period primarily due to the same reasons as noted for the quarter but also due to an increase in insurance expense from higher premiums and an increase in travel expenses as the Company has started to lift internal travel restrictions that were previously related to the Covid pandemic.

SALES AND MARKETING

\$000s	Quarters Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Courses, conferences & advertising	6	4		21	34	
Other	-	1		-	1	
Total sales and marketing	6	5	20%	21	35	-40%

Sales and marketing expense for the quarter ended September 30, 2022, increased by \$1,000 or 20% from the comparative quarter. For the nine month period ended September 30, 2022, sales and marketing expense decreased by \$14,000 or 40% from the comparative period.

The Company's primary marketing strategy is to sell mostly through a distribution network instead of selling directly to end-users and as a result sales and marketing expenses are negligible.

The expenses incurred in the current and comparative periods primarily relate to the Company's subsidiary Juvente which has not been focusing on these activities as sales have been primarily restricted to website sales since the start of the COVID-19 pandemic.

FINANCE COSTS

\$000s	Quarters			Nine Months		
	Ended September 30,			Ended September 30,		
	2022	2021	Change	2022	2021	Change
Interest on lease liabilities	31	34		97	106	
Royalties	-	-		55	55	
Accretion of CAAP loan	-	4		-	9	
	31	38	-18%	152	170	-11%

Finance costs decreased by 18% or \$7,000 in the quarter ended September 30, 2022, from \$38,000 in 2021 to \$31,000. The decrease is partially attributable to lower interest on the lease liabilities as the principal portion of these liabilities are lower from ongoing repayment. The decrease is also partially due to there being no accretion on the CAAP loan in the current quarter as it was fully repaid at December 31, 2021.

Finance costs for the nine month period ended September 30, 2022 decreased by 11% or \$18,000, from \$170,000 in 2021 to \$152,000, due to the same factors that impacted the quarter.

OTHER (INCOME) EXPENSE

\$000s	Quarters			Nine Months		
	Ended September 30,			Ended September 30,		
	2022	2021	Change	2022	2021	Change
Foreign exchange (gain) loss	(251)	(155)		(350)	14	
Plant relocation costs	22	23		66	77	
Gain on disposal of equipment	-	(5)		-	(5)	
Other expense (income)	(42)	(1)		(56)	6	
	(271)	(138)	96%	(340)	92	-470%

During the quarter ended September 30, 2022, other income increased by \$133,000 or 96% from other income of \$138,000 to other income of \$271,000. The increase was primarily due to a larger foreign exchange gain during the current quarter compared to the prior quarter as well as an increase in interest income from carrying a higher cash and cash equivalent balance and rising interest rates.

During the nine month period ended September 30, 2022, other income increased by \$432,000 or 470% from an expense of \$92,000 to other income of \$340,000, also primarily due to a foreign exchange gain in the current period compared with a foreign exchange loss in the comparative period and higher interest income.

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 third quarter of 2021 the US dollar strengthened creating a foreign exchange gain in the third quarter that nearly erased foreign exchange losses created in the first and second quarters of 2021. In the first quarter of 2022 the US dollar weakened resulting in a foreign exchange loss in that quarter which was reversed in the second quarter of the current year resulting in a foreign exchange gain. In the third quarter of the current year the US dollar continued to strengthen, resulting in not only a significant foreign exchange gain for the current quarter but also for the overall nine month period ended September 30, 2022.

Plant relocation costs represent costs incurred relating to the new manufacturing facility that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized. While the shut down and transfer of the Leduc manufacturing facility was completed in 2020 there are still some associated storage costs. Also included in this account are costs relating to additional bays of the facility that have not yet commenced construction.

DEPRECIATION AND AMORTIZATION EXPENSE

In the nine month period ended September 30, 2022, the total depreciation and amortization expense was \$1,415,000 which was consistent with expense of \$1,408,000 in the comparative period in 2021. The expense was allocated as follows: \$257,000 to general and administration expense (2021 - \$253,000), \$266,000 to inventory (2021 - \$181,000), and \$892,000 (2021 - \$975,000) to cost of goods sold.

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	2022			2021				2020
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues	3,845	5,500	6,172	3,562	4,523	4,408	4,702	2,706
Net income (loss)	862	1,663	1,996	776	875	676	515	(539)
Basic net income (loss) per common share	0.011	0.021	0.026	0.010	0.011	0.009	0.007	(0.007)
Diluted net income (loss) per common share	0.011	0.021	0.025	0.010	0.011	0.009	0.007	(0.007)

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

Significant New Accounting Standards

There were no new standards that became effective for periods beginning on or after January 1, 2022 that have a material impact on the Company's unaudited condensed interim consolidated financial statements for the nine month period ended September 30, 2022.

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

<u>\$000s</u>	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Non-current assets	17,273	18,801
Current assets	18,514	11,727
Current liabilities	(842)	(972)
<u>Total assets less current liabilities</u>	<u>34,945</u>	<u>29,556</u>
Non-current liabilities	3,079	2,359
Shareholders' equity	31,866	27,197
<u>Total capital employed</u>	<u>34,945</u>	<u>29,556</u>

Non-current assets decreased by \$1,528,000, partially due to the utilization of deferred tax assets of \$439,000 on the Company's estimated income tax provision, and partially due to a depreciation provision of \$1,413,000 and an amortization provision on licences of \$2,000 offset by the acquisition of \$327,000 of property and equipment.

Current assets increased by \$6,787,000 primarily due to an increase in cash from operations of \$5,129,000, an increase in trade and other receivables in the amount of \$852,000, and an increase in inventories of \$815,000, offset by a decrease prepaid expenses and deposits of \$9,000.

Current liabilities totaling \$842,000 decreased by the net amount of \$130,000 primarily due to a decrease in accounts payable and accrued liabilities of \$153,000 offset by an increase in the current portion of lease liabilities of \$23,000.

Non-current liabilities totaling \$3,079,000 increased by the amount of \$720,000 primarily due to the recognition of deferred tax liabilities of \$959,000 on the Company's estimated income tax provision offset by the repayment of lease liabilities and reallocation of current portion of the lease liabilities of \$239,000.

Equity of \$31,866,000 at September 30, 2022 increased by \$4,669,000 from equity of \$27,197,000 at December 31, 2021, primarily due to the recognition of net income of \$4,520,000 for the nine month period ended September 30, 2022, the recognition of share-based payment compensation of \$73,000, and due to the issuance of shares from the exercise of stock options of \$76,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended September 30, 2022 and 2021.

\$000s	Nine Months Ended September 30,	
	2022	2021
Sources of funds:		
Funds generated from operations adjusted for non-cash items	7,504	3,598
Proceeds from disposal of equipment	-	5
Share issuance	76	27
	<u>7,580</u>	<u>3,630</u>
Uses of funds:		
Purchase of property and equipment	(327)	(514)
Changes in non-cash working capital items relating to operating activities	(1,763)	(655)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	(48)	(133)
Interest paid	(97)	(107)
Repayment of lease liabilities	(216)	(180)
	<u>(2,451)</u>	<u>(1,589)</u>
Net change in cash flows	<u>5,129</u>	<u>2,041</u>

Net change in cash flow was an increase of \$5,129,000 during the nine month period ended September 30, 2022 in comparison with an increase of \$2,041,000 for the comparative period. Cash generated from operations of \$5,741,000 (after adjustment for non-cash items and working capital items relating to operating activities) in the current period was higher than the comparative period where cash generated from operations was \$2,943,000 and this was primarily due to a significant increase in sales in the current period, a foreign exchange gain in the current period, lower capital purchases in the current period, and a decrease in the investment in research and development of \$1,837,000 compared to the prior period.

The Company has a positive working capital balance (defined as current assets less current liabilities) of \$17,671,988 at September 30, 2022. 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 8, 2022, were 78,218,177. In addition, 2,757,999 stock options as at November 8, 2022, were outstanding that are potentially convertible into an equal number of common shares at various prices.

GRANT FUNDING

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

During the year ended December 31, 2020, the Company received or recorded as a receivable \$367,542 which was recorded as a reduction of research and development expenses. During the year ended December 31, 2021, the Company received \$68,522 which was recorded as a reduction of research and development expenses. The project was completed as at December 31, 2021.

b) During the year ended December 31, 2021, the Company entered into a new contribution agreement with the National Research Council of Canada's Industrial Research Assistance Program (NRC -IRAP) for non-repayable funding of up to a maximum \$480,000 for costs incurred on the design of a pharmaceutical PGX processing unit, impregnation unit, and spray chamber unit for the Company's PGX Technology with the aim to boost the innovation capacity of the technology towards pharmaceutical applications. During the year ended December 31, 2021, the Company received or recorded as a receivable \$57,651 which was recorded as a reduction of research and development expenses. During the first nine months of 2022, the Company received or recorded as a receivable \$326,665 which has been recorded as a reduction of research and development expenses. The Company anticipates receiving an additional \$86,564 over the period October 1, 2022 to March 31, 2023.

Related Party Transactions

During the current quarter and nine month periods ended September 30, 2022, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling \$320,000 and \$958,000 respectively (2021 – \$248,000 and \$856,000), share-based payments expense for key management personnel was \$10,000 and \$47,000 respectively (2021 - \$2,000 and \$6,000) and research and development expenditures paid to Angiogenesis Foundation for which a director of the Company is the CEO of the Foundation were \$nil for both periods (2021 - \$126,510 for both periods).

The amount payable to directors at September 30, 2022, was \$117,000 (2021 - \$40,000). Consulting fees and key management salaries to officers included in accounts payable at September 30, 2022 was \$nil (2021 - \$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:

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

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

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

(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 PGX technology 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; and
- (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

With the solid year to date financial performance, a solid foundation with Ceapro's cosmeceuticals base business, positive results from early research programs with new chemical complexes, unique enabling technologies and portfolio, Ceapro is now at an inflection point to accelerate the expansion to a new business model from a contract manufacturer/commodity company to a high value life science/biopharmaceutical company involved in the nutraceuticals and pharmaceuticals markets.

Financial Instruments

The Company has exposure to financial instrument risks and this section provides disclosures relating to the nature and extent of our exposure to risks arising from financial instruments and how we manage those risks.

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 94% of trade receivables are due from one distributor at September 30, 2022 (December 31, 2021 – 93% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	September 30, 2022	December 31, 2021
	\$	\$
Not yet due	1,337,229	1,378,587
Less than 30 days past due	899,042	262,125
Less than 60 days past due, more than 30 days past due	674,401	413,842
More than 60 days past due	-	38,288
Total	2,910,672	2,092,842

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, 2022 and December 31, 2021 are not significant and have not been recognized.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$12,910,069 at September 30, 2022 (December 31, 2021 - \$7,780,989) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

The following is the contractual maturity of the Company's financial liabilities and obligations as at September 30, 2022:

	within 1 year \$	1 to 3 years \$	3 to 5 years \$	over 5 years \$	Total \$
Accounts payable and accrued liabilities	528,746	-	-	-	528,746

c) Market risk

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

1. Foreign currency risk

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

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company. The amounts have been translated based on the exchange rate at September 30, 2022.

	Carrying Amount (USD)	Foreign Exchange Risk (CDN)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Trade receivables	2,123,437	27,362	(27,362)
Financial liabilities			
Accounts payable and accrued liabilities	97,542	(1,256)	1,256
Total increase (decrease)		26,106	(26,106)

The carrying amount of trade receivables and accounts payable and accrued liabilities in USD represents the Company's exposure at September 30, 2022.

2. Interest rate risk

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

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. The risks and uncertainties described in this MD&A are those we currently believe to be material, but they are not the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently deem immaterial, may also adversely affect our business. To the extent possible, we pursue and implement strategies to reduce or mitigate the risks associated with our business.

a) 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.

b) Customer Reliance

The Company derives over 90% of our sales and related accounts receivable from one distribution partner, Symrise AG, and while we are continually seeking to expand our customer base, we expect this will continue for the foreseeable future. Our future success in our base business cosmeceuticals market is dependent upon the continued demand by this distributor and their underlying customers, and the expansion of our customer base. Any decline in or loss of demand from this distributor or their underlying customers may have a negative impact on our revenues, and an adverse impact on our business, financial condition, and results of operations.

c) Intellectual property

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

d) Licences

Ceapro has entered into limited life licence agreements for exclusive rights to new technologies. As part of the licence agreements the Company works to develop and scale up the new technologies with the goal to commercialize the technologies or products derived from the technologies. The development of these new technologies is a costly, complex, and time-consuming process, and the investment in this development often involves a prolonged time period until a return is achieved on the investment. The Company's ability to successfully develop and scale-up new technologies within the expiry periods of the licence agreements is dependent on a number of key factors such as hiring and retaining employees who have specialized knowledge and expertise pertaining to the development of the technologies, being able to access third party specialists, being able to source key equipment or supplies in a timely manner, and delays in research and development programs related to products derived from the technologies. Commercial success depends on many factors including the degree of innovation of the products developed, access to funding for scale-up opportunities, uncertainties inherent in the regulatory approval processes, delays in manufacturing or marketing arrangements, and sufficient support from strategic partners if applicable. Should the Company not be able to successfully develop and scale-up the technologies within the time frames of the licence agreements it could have an adverse impact on our business and operating results and the share price of our Common Shares may decline.

e) Research and development programs

Research and development programs may be regarded as uncertain, and the results obtained may not support the anticipated benefits. The development of new formulations, products and treatments may require substantial investment and may take a significant amount of time. Pre-clinical and clinical trial work will be necessary to complete before potential products could be determined to be safe and effective products and before we can obtain regulatory approvals for products to be approved for human use. We may set expectations for the timing of programs and the expected results of those programs throughout the different phases of development, such as for anticipated regulatory submission and approval dates of clinical studies, for the commencement and completion of research programs and clinical studies, for expected results, and for the potential timing of commercialization. However, the timing of these events can vary due to unanticipated delays, unsatisfactory research program or clinical trial results, the ability to manufacture the products at a reasonable cost, the ability to find appropriate partners for further commercialization, and to market successfully. At any stage, we may find it necessary to abandon the development of a potential new formulation, product and treatment and we may need to develop a new business strategy. This may have an adverse effect on our potential revenues and operating results.

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) 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.

i) Cyber security

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

j) 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.

k) Legal matters

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

l) Significant accounting estimates and assumptions

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

m) Fair value and impairment

The Company relies on forecasts and estimates in its evaluation of the fair value of financial instruments and the recoverable amounts of non-financial assets in relation to impairment testing. The accuracy of such forecasts are inherently vulnerable to assumptions related to the timing of future events, the size of anticipated markets, forecasted costs, and the expected growth of sales.

n) Public health crisis

The Company is exposed to risks related to pandemics or epidemics such as the ongoing COVID-19 virus pandemic. The Company could experience disruptions in our raw materials supply chain, in our manufacturing operations, and our shipping activities as a result of quarantines, facility closures, travel and logistics restrictions, and other limitations in connection with the outbreak. COVID-19 may adversely affect our employees, our operations, our suppliers, and our customers. In addition to the impact on operations, these same disruptions may also adversely affect our research and development partners, research institutions, and laboratories which can negatively impact and delay our research programs. While we would expect this to be temporary, there is uncertainty around the duration of the pandemic, especially considering the variants of the virus that have emerged, and its broader impact. The extent to which the pandemic will impact the Company's results will depend on further developments which are highly uncertain and cannot be predicted with great certainty.

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.

Financial Statements

**Unaudited Condensed Interim Consolidated Financial Statements for the
Third Quarter Ended September 30, 2022 and 2021**

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

Financial Statements

CEAPRO INC.

Condensed Interim Consolidated Balance Sheets

Unaudited

	September 30, 2022	December 31, 2021
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	12,910,069	7,780,989
Trade receivables	2,910,672	2,092,842
Other receivables	79,856	45,850
Inventories (note 3)	2,459,554	1,644,893
Prepaid expenses and deposits	153,873	162,919
Total Current Assets	18,514,024	11,727,493
Non-Current Assets		
Investment tax credits receivable	766,629	766,629
Deposits	79,539	79,539
Licences (note 4)	13,329	15,551
Property and equipment (note 5)	16,413,179	17,499,774
Deferred tax assets	-	439,063
Total Non-Current Assets	17,272,676	18,800,556
TOTAL ASSETS	35,786,700	30,528,049
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	528,746	682,057
Current portion of lease liabilities (note 6)	313,290	290,055
Total Current Liabilities	842,036	972,112
Non-Current Liabilities		
Long-term lease liabilities (note 6)	2,119,391	2,358,862
Deferred tax liabilities	959,425	-
Total Non-Current Liabilities	3,078,816	2,358,862
TOTAL LIABILITIES	3,920,852	3,330,974
Equity		
Share capital (note 7 (b))	16,685,419	16,557,401
Contributed surplus (note 7 (e))	4,701,238	4,680,690
Retained earnings	10,479,191	5,958,984
Total Equity	31,865,848	27,197,075
TOTAL LIABILITIES AND EQUITY	35,786,700	30,528,049

See accompanying notes

Approved on Behalf of the Board

SIGNED: "Geneviève Foster"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

Financial Statements

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

	Quarters		Nine Months	
	Ended September 30, 2022	2021	Ended September 30, 2022	2021
	\$	\$	\$	\$
Revenue (note 13)	3,845,370	4,522,980	15,517,393	13,633,354
Cost of goods sold	1,767,400	1,573,655	5,845,479	5,787,608
Gross margin	2,077,970	2,949,325	9,671,914	7,845,746
Research and product development	314,250	1,403,186	1,213,455	3,050,544
General and administration	869,110	766,605	2,707,430	2,431,659
Sales and marketing	6,160	4,957	20,707	34,557
Finance costs (note 9)	31,382	37,684	151,592	169,938
Income from operations	857,068	736,893	5,578,730	2,159,048
Other (income) expense (note 10)	(271,162)	(138,381)	(339,965)	92,426
Income before tax	1,128,230	875,274	5,918,695	2,066,622
Deferred income tax expense	266,582	-	1,398,488	-
Total net income and comprehensive income for the period	861,648	875,274	4,520,207	2,066,622
Net income per common share (note 16):				
Basic	0.01	0.01	0.06	0.03
Diluted	0.01	0.01	0.06	0.03
Weighted average number of common shares outstanding (note 16):				
Basic	78,192,923	77,684,017	77,873,310	77,669,747
Diluted	78,817,665	78,740,532	78,519,944	78,694,469

See accompanying notes

Financial Statements

CEAPRO INC.
Condensed Interim Consolidated Statements of Changes in Equity
Unaudited

	Share capital \$	Contributed surplus \$	Retained earnings \$	Total equity \$
Balance December 31, 2021	16,557,401	4,680,690	5,958,984	27,197,075
Share-based payments (note 7 (c))	-	72,926	-	72,926
Share options exercised	128,018	(52,378)	-	75,640
Total net income and comprehensive income for the period	-	-	4,520,207	4,520,207
Balance September 30, 2022	16,685,419	4,701,238	10,479,191	31,865,848
Balance December 31, 2020	16,511,067	4,682,393	3,116,507	24,309,967
Share-based payments (note 7 (c))	-	13,672	-	13,672
Share options exercised	46,334	(19,609)	-	26,725
Total net income and comprehensive income for the period	-	-	2,066,622	2,066,622
Balance September 30, 2021	16,557,401	4,676,456	5,183,129	26,416,986

See accompanying notes

Financial Statements

CEAPRO INC.
Condensed Interim Consolidated Statements of Cash Flows
Unaudited

Nine Months Ended September 30,	2022	2021
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	4,520,207	2,066,622
Adjustments for items not involving cash		
Finance costs	96,592	106,390
Depreciation and amortization	1,415,361	1,408,392
Gain on disposal of equipment	-	(5,000)
Accretion	-	8,548
Deferred income tax expense	1,398,488	-
Share-based payments	72,926	13,672
	7,503,574	3,598,624
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(817,830)	(696,335)
Other receivables	(34,006)	62,702
Inventories	(814,661)	(322,192)
Prepaid expenses and deposits	9,046	137,618
Accounts payable and accrued liabilities relating to operating activities	(105,557)	163,017
	(1,763,008)	(655,190)
Net income for the period adjusted for non-cash and working capital items	5,740,566	2,943,434
Interest paid	(96,592)	(106,390)
CASH GENERATED FROM OPERATIONS	5,643,974	2,837,044
INVESTING ACTIVITIES		
Purchase of property and equipment	(326,544)	(514,305)
Proceeds from sale of equipment	-	5,000
Accounts payable and accrued liabilities relating to investing activities	(47,754)	(132,994)
CASH USED IN INVESTING ACTIVITIES	(374,298)	(642,299)
FINANCING ACTIVITIES		
Stock options exercised	75,640	26,725
Repayment of lease liabilities	(216,236)	(180,285)
CASH USED IN FINANCING ACTIVITIES	(140,596)	(153,560)
Increase in cash and cash equivalents	5,129,080	2,041,185
Cash and cash equivalents at beginning of the period	7,780,989	5,369,029
Cash and cash equivalents at end of the period	12,910,069	7,410,214

See accompanying notes

Cash and cash equivalents are comprised of \$12,910,069 (2021 - \$7,403,376) on deposit with financial institutions and \$NIL (2021 - \$6,838) held in money market mutual funds.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021
Unaudited**

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 condensed interim 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, 2021.

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, 2021.

The Audit Committee authorized these condensed interim consolidated financial statements for issue on November 8, 2022.

b) Basis for presentation

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., Ceapro USA Inc., and Juvente^{DC} Inc. Effective December 31, 2021, the Company wound up Ceapro Technology Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc. into the Company and dissolved Ceapro USA Inc.

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

c) Future accounting pronouncements

The IASB has published several new, but not yet effective, standards, amendments to existing standards, and interpretations. None of these standards, amendments to existing standards, or interpretations have been early adopted by the Company, and management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. No pronouncements have been disclosed as they are not expected to have a material impact on the Company's condensed interim consolidated financial statements.

3. INVENTORIES

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

	September 30, 2022	December 31, 2021
	\$	\$
Raw materials	948,557	549,022
Work in progress	894,932	717,273
Finished goods	616,065	378,598
	2,459,554	1,644,893

Inventories expensed to cost of goods sold during the three and nine month periods ended September 30, 2022 are \$1,755,954 and \$5,811,222 respectively (September 30, 2021 - \$1,564,262 and \$5,744,362).

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 12 (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 expense for the nine month period ended September 30, 2022 (September 30, 2021 - \$2,222) (see note 12 (a)).

Cost of licences	\$
Balance - December 31, 2021	44,439
Additions	-
Balance - September 30, 2022	44,439
Accumulated amortization	
Balance - December 31, 2021	28,888
Amortization	2,222
Balance - September 30, 2022	31,110
Net book value	
Balance - September 30, 2022	13,329
Balance - December 31, 2021	15,551

5. PROPERTY AND EQUIPMENT

	Equipment not available for use	Manufacturing Equipment	Office Equipment	Computer Equipment	Buildings	Leasehold Improvements	Total
Cost	\$	\$	\$	\$	\$	\$	\$
December 31, 2021	1,978,427	12,279,149	321,972	494,968	3,430,656	8,724,449	27,229,621
Additions	2,080	209,313	5,666	103,049	-	6,436	326,544
Disposals	-	-	-	(3,650)	-	-	(3,650)
September 30, 2022	1,980,507	12,488,462	327,638	594,367	3,430,656	8,730,885	27,552,515
Accumulated Depreciation							
December 31, 2021	-	5,710,904	265,227	446,850	1,009,258	2,297,608	9,729,847
Additions	-	638,674	9,174	22,505	249,873	492,684	1,412,910
Disposals	-	-	-	(3,421)	-	-	(3,421)
September 30, 2022	-	6,349,578	274,401	465,934	1,259,131	2,790,292	11,139,336
Carrying Amount							
September 30, 2022	1,980,507	6,138,884	53,237	128,433	2,171,525	5,940,593	16,413,179
December 31, 2021	1,978,427	6,568,245	56,745	48,118	2,421,398	6,426,841	17,499,774

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold	Inventory	General and administration	Total
	\$	\$	\$	\$
Nine Months Ended September 30, 2022	891,910	265,926	255,074	1,412,910
Nine Months Ended September 30, 2021	974,708	180,824	250,638	1,406,170

Included in the net carrying amount of property and equipment at September 30, 2022, are right-of-use assets relating to buildings, in the amount of \$2,171,525 (December 31, 2021 - \$2,421,398).

Included in the carrying amount of leasehold improvements is \$1,059,707 (December 31, 2021 - \$1,059,707) and included in the carrying amount of equipment not available for use is \$1,980,507 (December 31, 2021 - \$1,978,427) which represent the accumulated expenditures incurred on the purchase of an ethanol recovery system, equipment purchased for technology scale-up, other equipment, and the engineering design for the related construction and installation of the ethanol recovery system. At September 30, 2022, no amortization has commenced on these balances as construction and installation activities have not commenced.

6. LEASE LIABILITIES

The Company has leases for manufacturing facilities, office space, and warehouse. The lease liabilities consist of leases of buildings. The leases have been discounted using interest rates between 3.42% - 5.24%.

	Nine Months Ended September 30, 2022 \$	Year Ended December 31, 2021 \$
Balance at beginning of period	2,648,917	2,899,575
Interest expense	97,377	141,298
Lease payments	(313,613)	(391,956)
Balance at end of period	2,432,681	2,648,917
Less current portion	313,290	290,055
	2,119,391	2,358,862

Future minimum lease payments at September 30, 2022 are as follows:

	Within one year \$	One to five years \$	More than five years \$	Total \$
Lease payments	430,653	1,576,160	911,428	2,918,241
Finance charges	117,363	309,281	58,916	485,560
Net present values	313,290	1,266,879	852,512	2,432,681

Subsequent to the quarter, the Company entered into a new five year lease agreement for additional space for the installation of a mid-level scale-up of the PGX technology.

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

	Quarters		Nine Months	
	Ended September 30, 2022 \$	2021 \$	Ended September 30, 2022 \$	2021 \$
Short-term leases	6,139	5,759	18,416	24,592

At September 30, 2022, the Company was committed to short term leases and the total commitment at that date was \$15,595.

7. SHARE CAPITAL

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

- b. Issued - Class A Common Shares

	Nine Months Ended September 30, 2022		Year Ended December 31, 2021	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance at beginning of the period	77,685,843	16,557,401	77,621,341	16,511,067
Stock options exercised	532,334	128,018	64,502	46,334
Balance at end of the period	78,218,177	16,685,419	77,685,843	16,557,401

c. Stock Option Share-Based Payment Plan

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

The Company uses the Black-Scholes option pricing model to price its options.

In the nine month period ended September 30, 2022, the Company granted 450,000 (September 30, 2021 – 30,000) 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 2022 was 2.49% (2021 - .92%), the weighted average expected volatility was 66% (2021 – 66%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years (2021 – 5 years), the forfeiture rate was 0% (2021 – 0%), the weighted average share price was \$0.51 (2021 - \$0.64), the weighted average exercise price was \$0.51 (2021 - \$0.64), and the expected dividends were nil (2021 – nil). The weighted average grant date fair value of options granted in the nine month period ended September 30, 2022 was \$0.29 (2021 - \$0.35) per option.

The share-based payments expense recorded during the current three and nine month periods relating to options granted in 2022, 2021, and 2020 is \$33,002 and \$72,926 respectively (during 2021 relating to options granted in 2021, 2020 and 2019 is \$6,844 and \$13,672).

A summary of the status of the Company's stock options at September 30, 2022 and December 31, 2021 and changes during the periods ended on those dates is as follows:

	Nine Months Ended September 30, 2022		Year Ended December 31, 2021	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at beginning of period	2,990,333	0.56	3,048,501	0.55
Granted	450,000	0.51	30,000	0.64
Exercised	(532,334)	0.14	(64,502)	0.41
Forfeited	(150,000)	0.64	(23,666)	0.37
Outstanding at end of period	2,757,999	0.67	2,990,333	0.56
Exercisable at end of period	2,447,999	0.69	2,848,673	0.58

Stock options outstanding are as follows:

Fair Value \$	Exercise Price \$	Year of Expiration	Contractual Life Remaining (years)	Number of Options Outstanding	Number of Options Exercisable
0.32	0.56	2027	4.8	150,000	50,000
0.30	0.52	2027	4.6	150,000	50,000
0.24	0.44	2027	4.4	150,000	50,000
0.35	0.64	2026	4.0	30,000	20,000
0.21	0.36	2025	2.3	296,333	296,333
0.25	0.39	2024	1.3	304,666	304,666
0.47	0.50	2028	5.3	195,000	195,000
0.56	0.59	2027	5.1	90,000	90,000
1.22	1.30	2027	4.6	10,000	10,000
1.65	1.75	2027	4.3	400,000	400,000
0.34	0.36	2025	2.6	150,000	150,000
0.47	0.50	2025	2.3	100,000	100,000
0.60	0.64	2025	2.3	562,000	562,000
0.37	0.27	2024	2.1	150,000	150,000
0.08	0.10	2024	1.3	-	-
0.05	0.10	2023	0.3	20,000	20,000
				2,757,999	2,447,999
Weighted Average Contractual Life Remaining				3.1	3.0

d. Restricted Share Unit Share-Based Payment Plan

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

or the issuance of common shares. The Company intends to settle the obligations through the issuance of common shares.

The Company did not grant RSU's during the nine month period ended September 30, 2022 or the year ended December 31, 2021 and there are no RSU's granted and outstanding during those periods.

Of the 1,000,000 RSU's authorized for grant under the RSU plan, at September 30, 2022, 370,000 RSU's are available for grant (December 31, 2021 – 370,000).

e. Contributed surplus

	Nine Months Ended September 30, 2022	Year Ended December 31, 2021
	\$	\$
Balance at beginning of the period	4,680,690	4,682,393
Share-based payments (note 7 (c))	72,926	17,906
Stock options exercised	(52,378)	(19,609)
Balance at end of the period	4,701,238	4,680,690

8. RELATED PARTY TRANSACTIONS

Related party transactions during the periods are as follows:

	Quarters		Nine Months	
	Ended September 30,		Ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Key management salaries, short-term benefits, consulting fees, and director fees	320,389	248,177	958,416	855,589
Key management personnel share-based payments	10,145	1,933	47,412	6,167
Research and development expenditures paid to Angiogenesis Foundation for which a director of the Company is the CEO of the Foundation	-	126,510	-	126,510
Balance as at:			September 30, 2022	September 30, 2021
Amount payable to directors			116,659	39,657
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities			-	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.

9. FINANCE COSTS

	Quarters		Nine Months	
	Ended September 30,		Ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Interest on lease liabilities	31,382	34,728	96,592	106,390
Royalties	-	-	55,000	55,000
Accretion of CAAP loan	-	2,956	-	8,548
	31,382	37,684	151,592	169,938

10. OTHER (INCOME) EXPENSE

	Quarters		Nine Months	
	Ended September 30,		Ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Foreign exchange (gain) loss	(251,026)	(154,901)	(349,665)	13,722
Other (income) expense	(42,090)	(678)	(56,260)	6,067
Gain on disposal of equipment	-	(5,000)	-	(5,000)
Plant relocation costs	21,954	22,198	65,960	77,637
	(271,162)	(138,381)	(339,965)	92,426

11. EMPLOYEE BENEFITS EXPENSE

	Quarters		Nine Months	
	Ended September 30,		Ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Employee benefits	1,111,678	913,203	3,273,128	2,913,198

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

In the nine month period ended September 30, 2022, employee benefits expense has been allocated as follows: \$1,437,743 to general and administration expense (2021 - \$1,103,913), \$980,708 to cost of goods sold (2021 - \$946,907), and \$854,677 to research and development expense (2021 - \$862,378).

In the quarter ended September 30, 2022, employee benefits expense has been allocated as follows: \$525,100 to general and administration expense (2021 - \$327,080), \$317,274 to cost of goods sold (2021 - \$305,488), and \$269,304 to research and development expense (2021 - \$280,635).

12. COMMITMENTS AND CONTINGENCIES

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

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

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

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

(b) During the year ended December 31, 2014, the Company entered into a licence agreement with the University of Alberta for the rights to an enabling pressurized gas expanded technology (PGX) that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients. The agreement expires after a term of 20 years or after the expiration of the last patent obtained, whichever event shall occur first.

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

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

13. REVENUE

The Company has one reportable operating segment and revenue stream, being the operations relating to the active ingredient product technology industry.

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

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		Nine Months	
	Ended September 30, 2022	2021	Ended September 30, 2022	2021
	\$	\$	\$	\$
United States	1,585,084	2,835,586	9,615,649	9,715,768
Germany	1,812,292	1,479,502	4,530,620	3,377,007
China	432,229	187,432	1,322,080	439,174
Other	7,645	12,975	29,234	51,892
Canada	8,120	7,485	19,810	49,513
	3,845,370	4,522,980	15,517,393	13,633,354

During the nine month period ended September 30, 2022, the Company had export sales to one major distributor of the Company's products in the aggregate amount of \$14,663,480 representing 94% of total revenue (2021 - \$12,596,707 representing 92% 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.

14. FINANCIAL INSTRUMENTS

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

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

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

The fair value of cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities approximate their carrying amount(s) due to their short-term nature.

The 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 94% of trade receivables are due from one distributor at September 30, 2022 (December 31, 2021 – 93% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	September 30, 2022 \$	December 31, 2021 \$
Not yet due	1,337,229	1,378,587
Less than 30 days past due	899,042	262,125
Less than 60 days past due, more than 30 days past due	674,401	413,842
More than 60 days past due	-	38,288
Total	2,910,672	2,092,842

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, 2022 and December 31, 2021 are not significant and have not been recognized.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$12,910,069 at September 30, 2022 (December 31, 2021 - \$7,780,989) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

The following is the contractual maturity of the Company's financial liabilities and obligations at September 30, 2022:

	within 1 year	1 to 3 years	3 to 5 years	over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	528,746	-	-	-	528,746

c) Market risk

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

1. Foreign currency risk

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

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company. The amounts have been translated based on the exchange rate at September 30, 2022.

	Carrying Amount (USD)	Foreign Exchange Risk (CDN)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Trade receivables	2,123,437	27,362	(27,362)
Financial liabilities			
Accounts payable and accrued liabilities	97,542	(1,256)	1,256
Total increase (decrease)		26,106	(26,106)

The carrying amount of trade receivables and accounts payable and accrued liabilities in USD represents the Company's exposure at September 30, 2022.

2. Interest rate risk

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

15. 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, 2022.

16. INCOME PER COMMON SHARE

	Quarters		Nine Months	
	Ended September 30,		Ended September 30,	
	2022	2021	2022	2021
Net income for the period for basic and diluted earnings per share calculation	\$861,648	\$875,274	\$4,520,207	\$2,066,622
Weighted average number of common shares outstanding	78,192,923	77,684,017	77,873,310	77,669,747
Effect of dilutive stock options	624,742	1,056,515	646,634	1,024,722
Diluted weighted average number of common shares	78,817,665	78,740,532	78,519,944	78,694,469
Income per share - basic	\$0.01	\$0.01	\$0.06	\$0.03
Income per share - diluted	\$0.01	\$0.01	\$0.06	\$0.03

For the nine month period ended September 30, 2022, 1,392,000 (nine month period ended September 30, 2021 – 430,000) 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.

For the quarter ended September 30, 2022, 630,000 (quarter ended September 30, 2021 – 430,000) 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.