



TSX-V: CZO



Q1 2018

**Unaudited Condensed Consolidated Financial Statements
for the First Quarter ended March 31, 2018**

Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the periods ended March 31, 2018 and 2017, the financial position as at March 31, 2018, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at May 15, 2018. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at March 31, 2018, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2017, which are prepared in accordance with International Financial Reporting Standards (IFRS), and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2017. All comparative percentages are between the periods ended March 31, 2018 and 2017 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A offers our assessment of Ceapro's future plans and operations as at May 15, 2018 and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

Vision, Core Business, and Strategy

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

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

Our products include:

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

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

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

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

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

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

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

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

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

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

Risks and Uncertainties

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

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

a) Credit risk

Trade and other receivables

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 84% of trade receivables are due from one distributor at March 31, 2018 (December 31, 2017 – 93% from one distributor) and all trade receivables at March 31, 2018 and December 31, 2017 are current. These main distributors are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$5,986,061 at March 31, 2018 (December 31, 2017 - \$6,173,895) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

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

| | within 1 year | 1 to 3 years | 3 to 5 years | over 5 years | Total |
|--|---------------|--------------|--------------|--------------|-----------|
| | \$ | \$ | \$ | \$ | \$ |
| Accounts payable and accrued liabilities | 835,190 | - | - | - | 835,190 |
| Long-term debt | 837,578 | 293,084 | - | - | 1,130,662 |
| CAAP loan | 83,884 | 167,767 | 83,884 | - | 335,535 |
| Total | 1,756,652 | 460,851 | 83,884 | - | 2,301,387 |

c) Market risk

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

1. Foreign currency risk

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

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

| | Carrying Amount (USD) | Foreign Exchange Risk (USD) | |
|--|-----------------------|-----------------------------|-----------------------|
| | | -1% Earnings & Equity | +1% Earnings & Equity |
| Financial assets | | | |
| Accounts receivable | 564,866 | 5,649 | (5,649) |
| Financial liabilities | | | |
| Accounts payable and accrued liabilities | 225,246 | (2,252) | 2,252 |
| Total increase (decrease) | | 3,397 | (3,397) |

| | Carrying Amount (EURO) | Foreign Exchange Risk (EURO) | |
|----------------------------------|------------------------|------------------------------|-----------------------|
| | | -1% Earnings & Equity | +1% Earnings & Equity |
| Financial liabilities | | | |
| Long-term debt | 176,705 | (1,767) | 1,767 |
| Total (decrease) increase | | (1,767) | 1,767 |

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at March 31, 2018.

2. Interest rate risk

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

d) Share price risk

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

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

e) People and process risk

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

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

f) Loss of key personnel

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

g) Interruption of raw material supply

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

h) Environmental issues

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

i) Regulatory compliance

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

j) Legal matters

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

k) Acquisitions

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

l) Fair value and impairment

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

Changes in accounting policies

IFRS 15 “Revenue from Contracts with Customers”

In May 2014, the IASB released IFRS 15 “Revenue from Contracts with Customers” which presents new requirements for the recognition of revenue, replacing IAS 18 “Revenue”, IAS 11 “Construction contracts”, and several revenue related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. A five-step model is used to account for revenue arising from contracts with customers. Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Incremental costs of obtaining a contract are paid over the life of the contract.

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

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

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

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

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

Additional disclosures regarding the Company’s reported revenue from contracts with customers have been presented in note 17 to the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2018.

IFRS 9 “Financial instruments”

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

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

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

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

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

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

Future accounting policies not yet adopted

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

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

IFRS 16 "Leases"

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

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

Results of Operations

Periods Ended March 31, 2018 and 2017

CONSOLIDATED INCOME STATEMENT

| <i>\$000s except per share data</i> | 2018 | % | 2017 | % |
|--|--------------|-------------|--------------|-------------|
| Total revenues | 2,270 | 100% | 3,183 | 100% |
| Cost of goods sold | 1,168 | 51% | 1,472 | 46% |
| Gross margin | 1,102 | 49% | 1,711 | 54% |
| Research and product development | 339 | 15% | 596 | 19% |
| General and administration | 748 | 33% | 839 | 26% |
| Sales and marketing | 16 | 1% | 4 | 0% |
| Finance costs | 71 | 3% | 79 | 2% |
| Income from operations | (72) | -3% | 193 | 6% |
| Other expenses | (286) | -13% | (181) | -6% |
| Income (loss) before tax | (358) | -16% | 12 | 0% |
| Income tax (expense) recovery | 63 | 3% | 6 | 0% |
| Net income (loss) | (295) | -13% | 18 | 1% |
| Basic net income (loss) per common share | (0.004) | | 0.000 | |
| Diluted net income (loss) per common share | (0.004) | | 0.000 | |

The following sections discuss the results from operations.

Revenue

| <i>\$000s</i> | Three Months Ended March 31, | | |
|----------------|------------------------------|-------|--------|
| | 2018 | 2017 | Change |
| Total revenues | 2,270 | 3,183 | -29% |

Total sales revenue decreased by approximately \$913,000 from \$3,183,000 in the first quarter of 2017 to \$2,270,000 in the first quarter of 2018.

Product sales volume for the first quarter ended March 31, 2018 was 25% lower than the comparative quarter. While sales of beta glucan improved slightly over the comparative quarter sales of avenanthramides were lower. Ceapro's quarterly sales with distributors fluctuate due to variations in the timing of customer orders. A portion of the difference is also attributable to a lower U.S dollar relative to the Canadian dollar compared to the comparative quarter which negatively impacted revenue by approximately \$63,000.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

| <i>\$000s</i> | Three Months Ended March 31, | | |
|--------------------|------------------------------|-------|--------|
| | 2018 | 2017 | Change |
| Sales | 2,270 | 3,183 | -29% |
| Cost of goods sold | 1,168 | 1,472 | -21% |
| Gross margin | 1,102 | 1,711 | -36% |
| Gross margin % | 49% | 54% | |

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 three months ended March 31, 2018, cost of goods sold decreased by \$304,000 or 21% from \$1,472,000 to \$1,168,000 which was expected with a 29% decrease in sales. However, the cost of goods sold did not decrease as much as the decrease in sales which has contributed to an overall decrease in the gross margin percentage. Fixed overhead costs were higher for salaries and wages relating to the additional operators and staff hired to support the operation of both the existing and new production facility during the commissioning and validation phase, and utilities and repairs and maintenance were higher, which were offset partially by lower amortization of manufacturing equipment.

RESEARCH AND PRODUCT DEVELOPMENT

| \$000s | Three Months Ended March 31, | | |
|---|------------------------------|------|--------|
| | 2018 | 2017 | Change |
| Salaries and benefits | 141 | 160 | |
| Regulatory and patents | 31 | 110 | |
| Other | 167 | 326 | |
| Total research and product development expenditures | 339 | 596 | -43% |

During the three month period ended March 31, 2018, research and development expenses decreased by 43% or \$257,000. The decrease is primarily due to a decrease in other research and development costs. In the comparative quarter there was a large investment in a new research program to study the bio activity of the Company's value driver active ingredients for which there was no expense in the first quarter of 2018. In addition, expenditures were slightly lower on the Company's Pressurized Gas eXpanded ("PGX") project during the current quarter. Otherwise, investment in the remainder of the Company's various enabling technologies and research projects were consistent with the prior quarter.

Research and development salaries and benefits were actually higher than the comparative quarter however the Company received approximately \$60,000 more grant funding compared to the prior quarter which resulted in an overall lower research and development salary expense.

Regulatory and patents expense will vary from period to period based on the timing of filings and maintenance payments. Because of timing differences, the current quarter is lower than the comparative quarter as a significant amount of maintenance costs will be incurred in the second quarter of 2018 instead of the first quarter.

Research and development expenses are expected to increase during the remainder of 2018 which is in line with the Company's focus on investing in its various enabling technologies and research on product development and new applications for its value driving products.

GENERAL AND ADMINISTRATION

| \$000s | Three Months Ended March 31, | | |
|---|------------------------------|------|--------|
| | 2018 | 2017 | Change |
| Salaries and benefits | 299 | 394 | |
| Consulting | 120 | 120 | |
| Board of directors compensation | 40 | 42 | |
| Insurance | 36 | 37 | |
| Accounting and audit fees | 26 | 33 | |
| Rent | 25 | 22 | |
| Public company costs | 51 | 85 | |
| Travel | 20 | 14 | |
| Depreciation and amortization | 55 | 36 | |
| Legal | 3 | 3 | |
| Other | 73 | 53 | |
| Total general and administration expenses | 748 | 839 | -11% |

General and administration expense for the three month period ended March 31, 2018 decreased by \$91,000 or 11% from the comparative quarter. The decrease was primarily due to a decrease in salaries and benefits expense that resulted from lower share-based payment expenses in the quarter ending March 31, 2018. Share-based payment expense related to restricted share units and stock options granted in January 2018 were approximately \$147,000 lower than the share-based payment expense relating to stock options granted in January 2017. While the share-based payment accounting charge impacts net income, it has no impact on cash flows.

The decrease in general and administration expense is also significantly related to a decrease in public company costs partially due to a decrease in communication costs related to investor materials and partially due to lower regulatory fees resulting from the Company's lower market capitalization.

The decrease in the above noted fees were partially offset by an increase in depreciation and amortization expense relating to the amortization of intangible assets acquired with the acquisition of Juvente during the fourth quarter of 2017.

SALES AND MARKETING

| \$000s | Three Months Ended March 31, | | |
|------------------------------------|------------------------------|------|--------|
| | 2018 | 2017 | Change |
| Courses, conferences & advertising | 14 | 3 | |
| Other | 2 | 1 | |
| Total sales and marketing | 16 | 4 | 300% |

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

FINANCE COSTS

| \$000s | Three Months Ended March 31, | | |
|----------------------------|------------------------------|------|--------|
| | 2018 | 2017 | Change |
| Interest on long-term debt | 3 | 9 | |
| Transaction costs | 4 | 4 | |
| Royalties | 55 | 55 | |
| Accretion of CAAP loan | 9 | 10 | |
| | 71 | 78 | -9% |

Finance costs decreased by 9% or \$7,000 in the three month period ended March 31, 2018 from \$78,000 in 2017 to \$71,000. The decrease is primarily attributable to the Company's declining long-term debt balance, where a larger portion of the monthly payments are being allocated to principal repayment and less to interest.

OTHER EXPENSES

| \$000s | Three Months Ended March 31, | | |
|---------------------------|------------------------------|------|--------|
| | 2018 | 2017 | Change |
| Foreign exchange loss | 42 | 11 | |
| Quality management system | 92 | 40 | |
| Other (income) expense | (13) | 1 | |
| Plant relocation costs | 165 | 129 | |
| | 286 | 181 | 58% |

During the three month period ended March 31, 2018, other expenses increased by \$105,000 or 58% from \$181,000 in 2017 to \$286,000.

The increase was primarily due to expenditures on the Company's project to implement an improved quality management system. The new system is being designed to focus policies towards consistently meeting or exceeding customer requirements and is also aligned with the Company's strategic goal of transitioning to nutraceutical and pharmaceutical markets. The project commenced in the fourth quarter of fiscal 2016 and continued through the first two quarters of 2017. The project has started back up again in Q1 of 2018 and has increased in scale in preparation for upcoming customer audits.

The overall increase in other expenses was also impacted by a \$36,000 increase over the comparable quarter in plant relocation costs which represent costs incurred relating to the new manufacturing facility that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized. The increase was primarily due to an overlapping rental charge from moving our warehouse closer to the new facility as well as additional storage and transportation costs as we continue to transition to the new manufacturing facility.

The increase was also due to a \$31,000 increase in foreign exchange loss over the comparative quarter. The Company's foreign exchange losses and gains are primarily due to the translation of US dollar denominated accounts receivable, accounts payable, and deferred revenue balances, and from the timing of the realization of these balances. Foreign exchange will fluctuate between the quarters due to fluctuations between the US dollar and the Canadian dollar. The foreign exchange gains and losses are also impacted by the translation of the Company's Euro denominated debt. During the three months ended March 31, 2018, the Euro debt translation resulted in a \$16,000 loss compared to a \$3,000 loss in the comparative quarter.

DEPRECIATION AND AMORTIZATION EXPENSE

In the three month period ended March 31, 2018, the total depreciation and amortization expense of \$76,000 (2017 - \$89,000) was allocated as follows: \$56,000 to general and administration expense (2017 - \$37,000), \$5,000 to inventory (2017 - \$24,000), and \$15,000 (2017 - \$28,000) to cost of goods sold.

Depreciation expense is lower than the prior quarter as the depreciable base of manufacturing equipment currently in use and assets used in the corporate head office is lower than the comparative quarter. This was partially offset by an increase in depreciation from the acquisition of equipment from the purchase of Juvente and an increase in amortization expense relating to the acquisition of intangible assets from the purchase of Juvente.

Quarterly Information

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

| \$000s except per share data | 2018 | 2017 | | | | 2016 | | |
|--|---------|---------|-------|-------|-------|-------|-------|-------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Total revenues | 2,270 | 2,969 | 3,600 | 3,174 | 3,183 | 2,425 | 3,018 | 4,168 |
| Net income (loss) | (295) | (1,642) | 296 | 370 | 18 | 126 | 645 | 1,636 |
| Basic net income (loss) per common share | (0.004) | (0.022) | 0.004 | 0.005 | 0.000 | 0.002 | 0.009 | 0.026 |
| Diluted net income (loss) per common share | (0.004) | (0.022) | 0.004 | 0.005 | 0.000 | 0.002 | 0.008 | 0.025 |

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

Net income in the first quarter of 2018 and 2017 include non-cash share-based payment accounting charges of \$185,000 (2017 - \$307,000) primarily relating to the granting of stock options and restricted share units in January 2018 and the granting of stock options in January 2017. These accounting charges are considerably higher than in any of the comparable quarters presented as convertible securities granted during these periods were not as significant.

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

Liquidity and Capital Resources

CAPITAL EMPLOYED

| <u>\$000s</u> | <u>March 31, 2018</u> | <u>December 31, 2017</u> |
|--|-----------------------|--------------------------|
| Non-current assets | 19,021 | 18,811 |
| Current assets | 8,271 | 8,997 |
| Current liabilities | (3,875) | (4,067) |
| <u>Total assets less current liabilities</u> | <u>23,417</u> | <u>23,741</u> |
| Non-current liabilities | 983 | 1,197 |
| Shareholders' equity | 22,434 | 22,544 |
| <u>Total capital employed</u> | <u>23,417</u> | <u>23,741</u> |

Non-current assets increased by \$210,000 primarily due to the acquisition of \$274,000 of property and equipment net of grants offset by a depreciation provision of \$60,000. The increase was also due to a new deposit provided for \$11,000 offset by an amortization provision on intangible assets of \$15,000 and on licenses of \$1,000.

Current assets decreased by \$726,000. Trade and other receivables decreased by \$621,000 and cash decreased by \$188,000 primarily due to the acquisition of property and equipment. These decreases were offset by an increase in prepaid expenses of \$71,000 and an increase in inventories \$12,000.

Current liabilities totaling \$3,875,000 decreased by the net amount of \$192,000 primarily due to a decrease in trade payables of \$144,000 and a decrease in the current portion of long-term debt of \$51,000 which was offset by an increase in the current portion of the CAAP loan of \$3,000.

Non-current liabilities totaling \$983,000 decreased by the net amount of \$214,000 primarily due to the repayment of and reclassification to current portion of long-term debt of \$157,000 and by the recovery of \$63,000 of deferred tax assets which resulted in a net deferred tax liability of \$541,000 at March 31, 2018. These decreases were offset by an increase in the discounted CAAP loan in the amount of \$6,000.

Equity of \$22,434,000 at March 31, 2018 decreased by \$110,000 from equity of \$22,544,000 at December 31, 2017 due to the recognition of a net loss of \$295,000 for the three month period ended March 31, 2018 which was offset by the recognition of share-based payment compensation of \$185,000.

SOURCES AND USES OF CASH

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

| <i>\$000s</i> | Three Months Ended March 31, | |
|---|------------------------------|----------------|
| | 2018 | 2017 |
| Sources of funds: | | |
| Funds generated from operations adjusted for non-cash items | - | 443 |
| Grant used for capital assets | 66 | 23 |
| Share issuance | - | 413 |
| Changes in non-cash working capital items relating to operating activities | 450 | - |
| | 516 | 879 |
| Uses of funds: | | |
| Funds used in operations adjusted for non-cash items | (66) | - |
| Purchase of property and equipment | (325) | (608) |
| Purchase of leasehold improvements | (4) | (166) |
| Deposits relating to investing activities | - | (421) |
| Changes in non-cash working capital items relating to operating activities | - | (603) |
| Changes in non-cash accounts payable and accrued liabilities relating to investing activities | (68) | (129) |
| Interest paid | (14) | (27) |
| Repayment of long-term debt | (227) | (247) |
| | (704) | (2,201) |
| Net change in cash flows | (188) | (1,322) |

Net change in cash flow was a decrease of \$188,000 during the three month period ended March 31, 2018 in comparison with a decrease of \$1,322,000 for the same period in 2017. The significant difference is partially due to the Company generating more funds from operations in the first quarter of 2018 compared to the first quarter of 2017 largely due from the receipt of trade receivables. In addition, the Company incurred lower expenditures on property and equipment and leaseholds in 2018 as compared to the comparative quarter.

In the first three months of 2018, the property and equipment expenditures related primarily to the commissioning and validation of the extraction/fractionation processes, and partially to the continued development of a pilot scale skid for the Company's PGX Technology for which grant funding was recognized. In the first three months of 2017 the property and equipment expenditures related to the same projects but were higher. In the first quarter of 2017 the Company also made an additional deposit on the purchase of an ethanol recovery system and incurred leasehold improvement expenditures relating to

design work for the construction necessary to install and house the new ethanol recovery system. The purchase of the ethanol recovery system was completed in Q4 of 2017. The related leasehold improvements and installation of the equipment is not planned until late 2018 as the Company's priority of efforts will first be directed to satisfying upcoming customer audits on the new facility.

The Company has a positive working capital balance of \$4,395,942 at March 31, 2018. Based on current plans, the Company estimates that it has sufficient capital necessary to complete final commissioning activities and validation trials at the newly completed manufacturing facility, to commence installation of an ethanol recovery system which is expected to improve the Company's manufacturing process, and the capital necessary to proceed with previously disclosed research and development projects and upcoming clinical trials.

The Company also estimates that the cash flows generated by its existing operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, maintain capital investment, and service debt needs.

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

Total common shares issued and outstanding as at May 15, 2018 were 75,756,859 (May 16, 2017 – 75,350,225). In addition, 2,498,668 stock options, 4,244,480 warrants, and 660,377 broker unit warrants as at May 15, 2018 (May 16, 2017 – 2,495,302 stock options, 4,244,480 warrants, and 660,377 broker unit warrants) were outstanding that are potentially convertible into an equal number of common shares at various prices.

GRANT FUNDING

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

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

c) During the year ended December 31, 2015, the Company entered into a contribution agreement with AI-Bio Solutions for a non-repayable funding contribution of \$800,000 to implement the scale-up of the Company's Enabling Pressurized Gas eXpanded (PGX) Technology. During the year ended December 31, 2017, the Company recognized \$557,908 on eligible equipment and \$85,200 on eligible expenses. At December 31, 2017, the Company had expended \$60,680 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the first quarter ended March 31, 2018, the Company recognized \$30,048 on eligible equipment and \$52,293 on eligible expenses and received an additional \$100,000. At March 31, 2018, the Company has expended \$43,021 in excess of grant funds received and has recognized a receivable for this balance. The Company anticipates receiving the final \$100,000 of contributions during the remainder of 2018.

d) During the year ended December 31, 2015, the Company entered into a contribution agreement with Industrial Research Assistance Program (IRAP) for non-repayable funding of up to a maximum of \$350,000 for costs incurred on the demonstration and testing of the Company's PGX Technology. During the year ended December 31, 2017, IRAP and the Company agreed to amend the contribution agreement to increase the non-repayable funding up to a maximum of \$400,000. During the year ended December 31, 2017, the Company received or recorded as a receivable \$82,816 (2016 - \$261,813) which has been recorded as a reduction of research and project development expenses. The project was completed at December 31, 2017.

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

f) During the year ended December 31, 2016, the Company entered into a contribution agreement with the German-Canadian Centre for Innovation and Research to provide a non-repayable funding contribution of up to \$247,856 for the advancement of the Company's PGX Technology. During the year ended December 31, 2016, the Company received \$50,000 and recognized \$2,625 as a reduction of research and development expenditures and \$19,038 as a reduction of capital expenditures. The balance was recorded as deferred revenue at December 31, 2016. During the year ended December 31, 2017, the Company received an additional \$64,196 and recognized \$57,405 as a reduction of capital expenditures and \$66,114 as a reduction of research and development expenditures. At December 31, 2017, the Company expended \$30,986 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the first quarter ended March 31, 2018 the Company received the remaining \$133,660 of contributions and recognized \$36,494 as a reduction of capital expenditures and \$66,180 as a reduction of research and development expenditures. There are no further contributions to receive under this agreement and the project is expected to be completed in the third quarter of 2018.

Related Party Transactions

During the first quarter ended March 31, 2018, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling \$206,000 (2017 – \$201,000) and share-based payments expense for key management personnel was \$107,000 (2017 - \$305,000).

The amount payable to directors at March 31, 2018 was \$40,000 (2017 - \$40,000). Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities at March 31, 2018 was \$NIL (2017 - \$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, 2011, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. ("CVP") were served with a statement of claim from AVAC Ltd. alleging damages of \$724,500 pursuant to a product development agreement. The Company and CVP filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and were submitted to the presiding judge.

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

(b) During the year ended December 31, 2012, although the product development agreements were only entered into by the Company's wholly-owned subsidiary, Ceapro Technology Inc. ("CTI"), AVAC Ltd. served a statement of claim against both the Company and CTI, alleging damages of \$1,470,000 pursuant to two product development agreements. The Company and CTI filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and were submitted to the presiding judge.

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

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

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

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

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

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

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

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

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

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

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

Outlook

While we will continue to leverage on our de-risked base business model in cosmeceuticals through a distribution network, we will pursue the diversification of our business model by getting closer to the customer through the offering of the Juvente line of high-end value cosmeceutical products, and by further investing in clinically validating new product applications for our value drivers, avenanthramides and beta glucan, to allow the expansion of Ceapro to its next phase of growth into the profitable nutraceutical sector over the next twelve months.

Positive results from the nearly completed bioavailability study with the new chemical entity beta glucan CoQ10 as well as from the efficacy of avenanthramides in exercise induced inflammation would accelerate this transition and partnering discussions with key player in the nutraceutical industry.

Additionally, we believe our unique and disruptive enabling technologies including PGX will continue to play a key role in Ceapro's success.

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

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

Additional Information

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

**Unaudited Condensed Consolidated Financial Statements for the
First Quarter Ended March 31, 2018**

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

Financial Statements

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

| | March 31, 2018 | December 31, 2017 |
|--|-------------------|----------------------|
| | \$ | \$ |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | 5,986,061 | 6,173,895 |
| Trade receivables | 728,345 | 1,246,413 |
| Other receivables | 110,029 | 213,512 |
| Inventories (note 5) | 1,097,434 | 1,085,388 |
| Prepaid expenses and deposits | 348,936 | 277,600 |
| | <u>8,270,805</u> | <u>8,996,808</u> |
| Non-Current Assets | | |
| Investment tax credits receivable | 607,700 | 607,700 |
| Deposits | 99,266 | 87,816 |
| Licences (note 6) | 26,662 | 27,403 |
| Property and equipment (note 7) | 17,593,349 | 17,379,839 |
| Intangible assets (note 8) | 474,933 | 489,733 |
| Goodwill (note 9) | 218,606 | 218,606 |
| | <u>19,020,516</u> | <u>18,811,097</u> |
| TOTAL ASSETS | <u>27,291,321</u> | <u>27,807,905</u> |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 835,190 | 979,626 |
| Current portion of long-term debt (note 10) | 810,360 | 860,871 |
| Royalty provision - Ceapro Inc. (note 11 (a)) | 778,636 | 778,636 |
| Royalty provision - Ceapro Technology Inc. (note 11 (b)) | 1,375,000 | 1,375,000 |
| Current portion of CAAP loan (note 13) | 75,677 | 72,942 |
| | <u>3,874,863</u> | <u>4,067,075</u> |
| Non-Current Liabilities | | |
| Long-term debt (note 10) | 273,838 | 430,622 |
| CAAP loan (note 13) | 167,588 | 161,424 |
| Deferred tax liabilities | 541,435 | 604,835 |
| | <u>982,861</u> | <u>1,196,881</u> |
| TOTAL LIABILITIES | <u>4,857,724</u> | <u>5,263,956</u> |
| Equity | | |
| Share capital (note 12 (b)) | 15,670,522 | 15,565,522 |
| Contributed surplus (note 12 (f)) | 4,349,710 | 4,269,855 |
| Retained earnings | 2,413,365 | 2,708,572 |
| | <u>22,433,597</u> | <u>22,543,949</u> |
| TOTAL LIABILITIES AND EQUITY | <u>27,291,321</u> | <u>27,807,905</u> |

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

Financial Statements

CEAPRO INC.
Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)
Unaudited

| Three Months Ended March 31, | 2018 | 2017 |
|--|------------|------------|
| | \$ | \$ |
| Revenue (note 17) | 2,269,580 | 3,183,510 |
| Cost of goods sold | 1,168,294 | 1,472,324 |
| Gross margin | 1,101,286 | 1,711,186 |
| Research and product development | 338,813 | 596,024 |
| General and administration | 747,736 | 839,340 |
| Sales and marketing | 16,023 | 4,290 |
| Finance costs (note 16) | 70,903 | 78,465 |
| Income from operations | (72,189) | 193,067 |
| Other expenses (note 15) | (286,418) | (181,043) |
| Income (loss) before tax | (358,607) | 12,024 |
| Income taxes | | |
| Current tax recovery | - | 9,344 |
| Deferred tax benefit (expense) | 63,400 | (3,600) |
| Income tax expense | 63,400 | 5,744 |
| Total comprehensive income (loss) for the period | (295,207) | 17,768 |
| Net income (loss) per common share (note 22): | | |
| Basic | (0.00) | 0.00 |
| Diluted | (0.00) | 0.00 |
| Weighted average number of common shares outstanding (note 22): | | |
| Basic | 75,712,526 | 75,167,058 |
| Diluted | 75,712,526 | 76,829,224 |

See accompanying notes

Financial Statements

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

| | Share capital \$ | Contributed surplus \$ | Retained earnings \$ | Total equity \$ |
|--|---------------------|------------------------------|----------------------------|--------------------|
| Balance December 31, 2017 | 15,565,522 | 4,269,855 | 2,708,572 | 22,543,949 |
| Share-based payments (note 12 (d) & (e)) | - | 184,855 | - | 184,855 |
| Restricted share units vested (note 12 (e)) | 105,000 | (105,000) | - | - |
| Net loss for the period | - | - | (295,207) | (295,207) |
| Balance March 31, 2018 | 15,670,522 | 4,349,710 | 2,413,365 | 22,433,597 |
| Balance December 31, 2016 | 14,859,136 | 3,874,725 | 3,666,847 | 22,400,708 |
| Share-based payments (note 12 (d)) | - | 306,687 | - | 306,687 |
| Stock options exercised | 72,520 | (34,200) | - | 38,320 |
| Warrants exercised | 487,435 | (112,435) | - | 375,000 |
| Net income for the period | - | - | 17,768 | 17,768 |
| Balance March 31, 2017 | 15,419,091 | 4,034,777 | 3,684,615 | 23,138,483 |

See accompanying notes

Financial Statements

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

| Three Months Ended March 31, | 2018 \$ | 2017 \$ |
|--|------------------|--------------------|
| OPERATING ACTIVITIES | | |
| Net income (loss) for the period | (295,207) | 17,768 |
| Adjustments for items not involving cash | | |
| Finance costs | 3,084 | 8,543 |
| Transaction costs | 3,920 | 4,511 |
| Depreciation and amortization | 75,562 | 89,214 |
| Unrealized foreign exchange loss on long-term debt | 16,039 | 2,579 |
| Accretion | 8,899 | 10,411 |
| Deferred tax expense | (63,400) | 3,600 |
| Share-based payments | 184,855 | 306,687 |
| Net income (loss) for the period adjusted for non-cash items | (66,248) | 443,313 |
| CHANGES IN NON-CASH WORKING CAPITAL ITEMS | | |
| Trade receivables | 518,068 | (545,867) |
| Other receivables | 103,483 | 22,910 |
| Inventories | (12,046) | (65,213) |
| Prepaid expenses and deposits | (82,786) | 3,276 |
| Deferred revenue | - | (207,185) |
| Accounts payable and accrued liabilities relating to operating activities | (76,513) | 189,153 |
| Total changes in non-cash working capital items | 450,206 | (602,926) |
| Net income (loss) for the period adjusted for non-cash and working capital items | 383,958 | (159,613) |
| Interest paid | (14,278) | (26,510) |
| CASH GENERATED FROM OPERATIONS | 369,680 | (186,123) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (325,057) | (608,247) |
| Purchase of leasehold improvements | (3,822) | (166,369) |
| Deposits relating to investment in equipment | - | (421,217) |
| Accounts payable and accrued liabilities relating to investing activities | (67,923) | (129,430) |
| CASH USED BY INVESTING ACTIVITIES | (396,802) | (1,325,263) |
| FINANCING ACTIVITIES | | |
| Stock options exercised | - | 38,320 |
| Warrants exercised | - | 375,000 |
| Repayment of long-term debt | (227,254) | (246,659) |
| Grant used for purchase of leaseholds, property and equipment | 66,542 | 23,093 |
| CASH GENERATED FROM FINANCING ACTIVITIES | (160,712) | 189,754 |
| Decrease in cash and cash equivalents | (187,834) | (1,321,632) |
| Cash and cash equivalents at beginning of the period | 6,173,895 | 9,150,035 |
| Cash and cash equivalents at end of the period | 5,986,061 | 7,828,403 |

See accompanying notes

Cash and cash equivalents are comprised of \$5,979,223 (2017 - \$7,539,137) on deposit with financial institutions, \$NIL (2017 - \$282,428) restricted cash on deposit with financial institutions, and \$6,838 (2017 - \$6,838) held in money market mutual funds.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

1. NATURE OF BUSINESS OPERATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These 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, 2017, except as noted below.

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, 2017.

Effective January 1, 2018 the Company has adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers". The impact of the adoption of these standards are disclosed in note 4 below.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on May 15, 2018.

b) Basis for presentation

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., Ceapro USA Inc., and Juvente^{DC} Inc. ("Juvente"). Juvente was acquired on October 25, 2017.

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.

3. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

IFRS 16 "Leases"

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

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

4. CHANGES IN ACCOUNTING POLICIES

IFRS 15 "Revenue from Contracts with Customers"

In May 2014, the IASB released IFRS 15 "Revenue from Contracts with Customers" which presents new requirements for the recognition of revenue, replacing IAS 18 "Revenue", IAS 11 "Construction contracts", and several revenue related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. A five-step model is used to account for revenue arising from contracts with customers. Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Incremental costs of obtaining a contract are paid over the life of the contract.

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

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

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

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

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

Additional disclosures regarding the Company's reported revenue from contracts with customers have been presented in note 17.

IFRS 9 "Financial instruments"

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

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

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

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

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

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

5. INVENTORIES

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

| | March 31, 2018 | December 31, 2017 |
|------------------|-------------------|----------------------|
| | \$ | \$ |
| Raw materials | 789,543 | 839,734 |
| Work in progress | 68,829 | 65,992 |
| Finished goods | 239,062 | 179,662 |
| | 1,097,434 | 1,085,388 |

Inventories expensed to cost of goods sold during the three month period ended March 31, 2018 are \$1,132,758 (March 31, 2017 - \$1,444,602).

6. LICENCES

During the year ended December 31, 2014, and as amended on February 2, 2015, the Company entered into a licence agreement with the University of Alberta for the rights to a technology that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients for all industrial applications. The agreement expires after a term of 20 years or after the expiration of the last patent obtained whichever event shall occur first. There is no initial licence fee, but the Company is required to make royalty payments (see note 19 (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 \$741 has been included in general and administration for the three month period ended March 31, 2018 (March 31, 2017 - \$740) (see note 19 (a)).

| | |
|---------------------------------|--------|
| Cost of licences | \$ |
| Balance - December 31, 2017 | 44,439 |
| Additions | - |
| Balance - March 31, 2018 | 44,439 |
| Accumulated amortization | |
| Balance - December 31, 2017 | 17,036 |
| Amortization | 741 |
| Balance - March 31, 2018 | 17,777 |
| Net book value | |
| Balance - March 31, 2018 | 26,662 |
| Balance - December 31, 2017 | 27,403 |

7. PROPERTY AND EQUIPMENT

| | Equipment not available for use | Manufacturing Equipment | Office Equipment | Computer Equipment | Leasehold Improvements | Total |
|--------------------------|---------------------------------------|----------------------------|---------------------|-----------------------|---------------------------|-------------------|
| Cost | \$ | \$ | \$ | \$ | \$ | \$ |
| December 31, 2017 | 7,443,893 | 4,278,409 | 308,612 | 430,141 | 8,721,316 | 21,182,371 |
| Additions | 280,963 | 37,538 | 10,607 | 7,143 | 3,822 | 340,073 |
| Cost reduced by grant | (30,048) | (36,494) | - | - | - | (66,542) |
| Disposal | - | - | - | - | - | - |
| March 31, 2018 | 7,694,808 | 4,279,453 | 319,219 | 437,284 | 8,725,138 | 21,455,902 |
| Accumulated | | | | | | |
| Depreciation | | | | | | |
| December 31, 2017 | - | 2,966,715 | 187,251 | 360,276 | 288,290 | 3,802,532 |
| Additions | - | 37,470 | 6,562 | 5,506 | 10,483 | 60,021 |
| Disposal | - | - | - | - | - | - |
| March 31, 2018 | - | 3,004,185 | 193,813 | 365,782 | 298,773 | 3,862,553 |
| Carrying Value | | | | | | |
| March 31, 2018 | 7,694,808 | 1,275,268 | 125,406 | 71,502 | 8,426,365 | 17,593,349 |
| December 31, 2017 | 7,443,893 | 1,311,694 | 121,361 | 69,865 | 8,433,026 | 17,379,839 |

Depreciation expense is allocated to the following expense categories:

| | Cost of goods sold | Inventory | General and administration | Total |
|-----------------------------------|-----------------------|-----------|-------------------------------|--------|
| | \$ | \$ | \$ | \$ |
| Three Months Ended March 31, 2018 | 15,429 | 5,320 | 39,272 | 60,021 |
| Three Months Ended March 31, 2017 | 28,405 | 24,148 | 35,921 | 88,474 |

The carrying value of the leasehold improvements and equipment not available for use represent the accumulated expenditures incurred on the construction of a new manufacturing facility, net of government funding received and amortization taken to date on leasehold improvements of \$628,471 currently in use. At March 31, 2018, construction of the extraction/fractionation area of the facility is complete. Amortization of this area has not commenced since it is still in the commissioning phase.

Included in the additions for equipment not available for use are capitalized borrowing costs of \$11,194 and capitalized employee salaries and benefits of \$83,800 arising directly from the installation and related construction and commissioning of the new manufacturing equipment and production process. The borrowing costs have been capitalized at the rates of the specific borrowings ranging between 2.85% and 3.91%.

8. INTANGIBLE ASSETS

| | Formulations | Brand | Website | Total |
|---------------------------------|--------------|---------|---------|---------|
| Cost | \$ | \$ | \$ | \$ |
| December 31, 2017 | 285,000 | 175,000 | 39,600 | 499,600 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| March 31, 2018 | 285,000 | 175,000 | 39,600 | 499,600 |
| Accumulated Amortization | | | | |
| December 31, 2017 | 4,750 | 2,917 | 2,200 | 9,867 |
| Additions | 7,125 | 4,375 | 3,300 | 14,800 |
| Impairment losses | - | - | - | - |
| March 31, 2018 | 11,875 | 7,292 | 5,500 | 24,667 |
| Net Book Value | | | | |
| March 31, 2018 | 273,125 | 167,708 | 34,100 | 474,933 |
| December 31, 2017 | 280,250 | 172,083 | 37,400 | 489,733 |

The Company's intangible assets consist of identifiable intangible assets acquired in a business combination of Juvente^{DC} Inc. on October 25, 2017. Amortization of \$14,800 (2017 – \$NIL) has been included in general and administration expense.

9. GOODWILL

| | March 31, 2018 \$ | December 31, 2017 \$ |
|------------------------------------|-------------------------|----------------------------|
| Balance at beginning of the period | 218,606 | - |
| Juvente acquisition | - | 218,606 |
| Balance at end of the period | 218,606 | 218,606 |

Goodwill of \$218,606 arose from the acquisition of Juvente^{DC} Inc. and has been allocated to that cash generating unit.

10. LONG-TERM DEBT

| | March 31, 2018 \$ | December 31, 2017 \$ |
|---|-------------------------|----------------------------|
| Loan payable secured by a general security agreement, due January, 2018 (a). | - | 14,835 |
| Loan payable secured by certain intellectual property, due January, 2019 (b). | 280,377 | 344,546 |
| Loan payable secured by a general security agreement, due April, 2019 (c). | 376,140 | 459,973 |
| Loan payable secured by a forklift, due June, 2018 (d). | 2,339 | 5,803 |
| Loan payable secured by a general security agreement, due July, 2020 (e). | 442,398 | 487,313 |
| Transaction costs | (17,056) | (20,977) |
| | 1,084,198 | 1,291,493 |
| Less current portion | 810,360 | 860,871 |
| | 273,838 | 430,622 |

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

| | |
|-----------------------------------|-------|
| Three Months Ended March 31, 2018 | 3,084 |
| Three Months Ended March 31, 2017 | 8,543 |

(a) During the year ended December 31, 2012, a loan from Agriculture Financial Services Corporation ("AFSC") was renewed to January 1, 2018 at an interest rate of 3.71% with monthly blended principal and interest payments of \$16,674 starting February 1, 2013. The loan has been fully repaid at March 31, 2018.

(b) During the year ended December 31, 2013, the Company entered into a loan agreement with its main distribution partner which is secured by certain intellectual property and is due January 2, 2019. The loan, for 1 million Euro, is repayable over 5 years at an interest rate of 2.85%. At March 31, 2018, the loan balance was 176,705 (December 31, 2017 – 228,904) Euro. Monthly blended principal and interest payments in the amount of 17,902 Euro commenced February 1, 2014. Based on the exchange rate at March 31, 2018, the monthly payment is \$28,405 (December 31, 2017 - \$26,946) in Canadian dollars.

(c) During the year ended December 31, 2013, the Company entered into a loan agreement with AFSC which is due April 1, 2019. The loan can be drawn to maximum \$1,600,000 Canadian dollars, is repayable over a 5-year term, and has an interest rate of 3.91%. Monthly blended principal and interest payments in the amount of \$29,352 commenced on May 1, 2014. The loan is secured by a general security agreement covering all present and after acquired personal property subject to a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 10(b).

(d) During the year ended December 31, 2014, the Company entered into a loan agreement to purchase a forklift. The loan is repayable over a four-year term and requires monthly blended principal and interest payments of \$1,167 and has an interest rate of 6.15%. The loan is secured by the forklift with a carrying value of \$50,031 (2017 - \$50,031) and is due June 1, 2018.

(e) During the year ended December 31, 2015, the Company entered into a loan agreement with AFSC which is due July 1, 2020. The loan can be drawn to maximum \$900,000 Canadian dollars, is repayable over a 5-year term, and has an interest rate of 3.84%. Monthly blended principal and interest payments in the amount of \$16,483 commenced on August 1, 2015. The loan is secured by a general security agreement covering all present and after acquired personal property subject to a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 10(b).

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

11. ROYALTY PROVISION

a) In the year ended December 31, 2005, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. (CVP), received a commitment for financial assistance totaling \$362,250 for product innovation development in the area of Veterinary Therapeutics and Active Ingredients. The Company and CVP were obligated to pay a 2.5% royalty to a maximum of \$75,000 per quarter (to a maximum of two times the financial assistance received or \$724,500) on sales generated from products developed using these funds. The portion of the obligation accrued and paid at March 31, 2018 was \$2,364 (December 31, 2017 - \$2,364).

During the year ended December 31, 2011, the Company and CVP were served with a statement of claim from AVAC Ltd. alleging damages of \$724,500 pursuant to the product development agreement. The Company and CVP filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and were submitted to the presiding judge.

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

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

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

During the year ended December 31, 2012, although the product development agreements were only entered into by CTI, AVAC Ltd. served a statement of claim against both the Company and its wholly-owned subsidiary, CTI, alleging damages of \$1,470,000 pursuant to the two product development agreements. The Company and CTI filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and were submitted to the presiding judge.

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

12. 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

| | Three Months Ended March 31, 2018 | | Year Ended December 31, 2017 | |
|------------------------------------|--------------------------------------|------------|---------------------------------|------------|
| | Number of Shares | Amount \$ | Number of Shares | Amount \$ |
| Balance at beginning of the period | 75,546,859 | 15,565,522 | 74,872,225 | 14,859,136 |
| Stock options exercised | - | - | 374,634 | 121,464 |
| Warrants exercised | - | - | 300,000 | 584,922 |
| Restricted share units vested | 210,000 | 105,000 | - | - |
| Balance at end of the period | 75,756,859 | 15,670,522 | 75,546,859 | 15,565,522 |

In January 2018, the Company issued 210,000 common shares on the vesting and conversion of restricted share units (see note 12 (e)). This non-cash transaction has been excluded from the Statement of Cash Flows.

c. Warrants

The following table summarizes the continuity of warrants:

| | Three Months Ended March 31, 2018 | | Year Ended December 31, 2017 | |
|------------------------------------|--------------------------------------|---|---------------------------------|---|
| | Number of Warrants | Weighted Average Exercise Price \$ | Number of Warrants | Weighted Average Exercise Price \$ |
| Balance at beginning of the period | 4,904,857 | 1.44 | 5,204,857 | 1.44 |
| Exercised | - | - | (300,000) | 1.50 |
| Balance at end of period | 4,904,857 | 1.44 | 4,904,857 | 1.44 |

The following table summarizes information about warrants outstanding:

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

d. Stock Option Share-Based Payment Plan

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

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the three month period ended March 31, 2018, the Company granted 210,000 (March 31, 2017 – 400,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock, life of the options, and forfeiture rate. The weighted average risk-free rate used in 2018 was 2.05% (2017 – 1.71%), the weighted average expected volatility was 117% (2017 - 118%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2017 – 10 years), forfeiture rate was 0% (2017 - 0%), the weighted average share price was \$0.50 (2017 – \$1.75), the weighted average exercise price was \$0.50 (2017 – \$1.75), and the expected dividends were nil (2017 - nil). The weighted average grant date fair value of options granted in the three month period ended March 31, 2018 was \$0.47 (2017 - \$1.65) per option.

The share-based payments expense recorded during the current period relating to options granted in 2018 and 2017 was \$79,855 (during 2017 relating to options granted in 2017, 2016, and 2015 - \$306,687).

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

| | Three Months Ended March 31, 2018 | | Year Ended December 31, 2017 | |
|--|--------------------------------------|---|---------------------------------|---|
| | Number of Options | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ |
| Outstanding at beginning of the period | 2,388,668 | 0.63 | 2,263,302 | 0.36 |
| Granted | 210,000 | 0.50 | 500,000 | 1.53 |
| Exercised | - | - | (374,634) | 0.17 |
| Expired | (100,000) | 0.44 | - | - |
| Outstanding at end of period | 2,498,668 | 0.63 | 2,388,668 | 0.63 |
| Exercisable at end of period | 2,158,667 | 0.57 | 2,055,334 | 0.49 |

Stock options outstanding are as follows:

| Fair Value \$ | Exercise Price \$ | Year of Expiration | Weighted Average Contractual Life Remaining (years) | March 31, 2018 Number of Options | December 31, 2017 Number of Options |
|------------------|----------------------|-----------------------|---|---|--|
| 0.47 | 0.50 | 2028 | 9.8 | 210,000 | - |
| 0.56 | 0.59 | 2027 | 9.6 | 90,000 | 90,000 |
| 1.22 | 1.30 | 2027 | 9.1 | 10,000 | 10,000 |
| 1.65 | 1.75 | 2027 | 8.8 | 400,000 | 400,000 |
| 0.25 | 0.27 | 2025 | 7.3 | 3,334 | 3,334 |
| 0.34 | 0.36 | 2025 | 7.1 | 150,000 | 150,000 |
| 0.47 | 0.50 | 2025 | 6.8 | 100,000 | 100,000 |
| 0.60 | 0.64 | 2025 | 6.8 | 765,334 | 765,334 |
| 0.37 | 0.27 | 2024 | 6.6 | 150,000 | 150,000 |
| 0.13 | 0.14 | 2024 | 6.2 | 25,000 | 25,000 |
| 0.08 | 0.10 | 2024 | 5.8 | 300,000 | 300,000 |
| 0.05 | 0.10 | 2023 | 4.8 | 295,000 | 295,000 |
| 0.22 | 0.44 | 2018 | - | - | 100,000 |
| | | | 7.1 | 2,498,668 | 2,388,668 |

e. Restricted Share Unit Share-Based Payment Plan

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

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

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

f. Contributed surplus

| | Three Months Ended March 31, 2018 \$ | Year Ended December 31, 2017 \$ |
|--|---|--|
| Balance at beginning of the period | 4,269,855 | 3,874,725 |
| Share-based payments (note 12 (d) & (e)) | 184,855 | 587,484 |
| Restricted share units vested | (105,000) | - |
| Stock options exercised | - | (57,432) |
| Warrants exercised | - | (134,922) |
| Balance at end of the period | 4,349,710 | 4,269,855 |

13. 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:

| | Three Months Ended March 31, 2018 \$ | Year Ended December 31, 2017 \$ |
|------------------------|---|--|
| Opening balance | 234,366 | 274,175 |
| Repayment | - | (83,884) |
| Accretion of CAAP loan | 8,899 | 44,075 |
| | 243,265 | 234,366 |
| Less current portion | 75,677 | 72,942 |
| | 167,588 | 161,424 |

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

14. RELATED PARTY TRANSACTIONS

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

| Three Months Ended March 31, | 2018 \$ | 2017 \$ |
|--|------------|------------|
| Key management salaries, short-term benefits, consulting fees, and director fees | 206,138 | 200,961 |
| Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities | - | 40,000 |
| Key management personnel share-based payments | 107,147 | 304,528 |
| Amount payable to directors | 40,119 | 39,594 |

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.

15. OTHER EXPENSES

| Three Months Ended March 31, | 2018 \$ | 2017 \$ |
|------------------------------|------------|------------|
| Foreign exchange loss | 41,930 | 11,025 |
| Other (income) expense | (13,175) | 886 |
| Quality management system | 92,259 | 40,179 |
| Plant relocation costs | 165,404 | 128,953 |
| | 286,418 | 181,043 |

16. FINANCE COSTS

| Three Months Ended March 31, | 2018 \$ | 2017 \$ |
|------------------------------|------------|------------|
| Interest on long-term debt | 3,084 | 8,543 |
| Transaction costs | 3,920 | 4,511 |
| Royalties | 55,000 | 55,000 |
| Accretion of CAAP loan | 8,899 | 10,411 |
| | 70,903 | 78,465 |

17. DISAGGREGATION OF REVENUE

The Company's operations and its revenue stream are the same as those described in the Company's consolidated financial statements as at and for the year ended December 31, 2017 and in note 4 above.

As disclosed in note 4, the adoption of IFRS 15 “Revenue from Contracts with Customers” at January 1, 2018 did not have a material impact on the Company’s condensed consolidated interim financial statements.

The Company’s revenue is derived from contracts with customers and is all recognized at the point in time when the customer obtains control of the product. The Company does not incur material costs to obtain contracts with customers.

The Company only has one reportable operating segment and revenue stream, being the operations relating to the active ingredient product technology industry. All the assets of the Company, which support the revenues of the Company, are located in Canada. The distribution of revenue by geographical market is as follows:

| Three Months Ended March 31, | 2018 \$ | 2017 \$ |
|------------------------------|------------|------------|
| United States | 1,636,777 | 2,473,426 |
| Germany | 451,328 | 678,908 |
| China | 115,939 | 12,430 |
| Other | 60,633 | 18,746 |
| Canada | 4,903 | - |
| | 2,269,580 | 3,183,510 |

18. EMPLOYEE BENEFITS

| Three Months Ended March 31, | 2018 \$ | 2017 \$ |
|------------------------------|------------|------------|
| Employee benefits | 897,404 | 1,000,167 |

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

19. COMMITMENTS

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

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

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

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

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

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

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

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

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

20. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

| | March 31, 2018 | | December 31, 2017 | |
|--|----------------|--------------|-------------------|--------------|
| | Book value | Fair value | Book value | Fair value |
| Loans and receivables: | | | | |
| Cash and cash equivalents | \$ 5,986,061 | \$ 5,986,061 | \$ 6,173,895 | \$ 6,173,895 |
| Trade and other receivables | 838,374 | 838,374 | 1,459,925 | 1,459,925 |
| Other financial liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 835,190 | \$ 835,190 | \$ 979,626 | \$ 979,626 |
| Long-term debt | 1,084,198 | 1,084,198 | 1,291,493 | 1,291,493 |
| CAAP loan | 243,265 | 243,265 | 234,366 | 234,366 |

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

a) Credit risk

Trade and other receivables

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 84% of trade receivables are due from one distributor at March 31, 2018 (December 31, 2017 – 93% from one distributor) and all trade receivables at March 31, 2018 and December 31, 2017 are current. These main distributors are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$5,986,061 at March 31, 2018 (December 31, 2017 - \$6,173,895) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

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

| | within 1 year \$ | 1 to 3 years \$ | 3 to 5 years \$ | over 5 years \$ | Total \$ |
|--|---------------------|--------------------|--------------------|--------------------|------------------|
| Accounts payable and accrued liabilities | 835,190 | - | - | - | 835,190 |
| Long-term debt | 837,578 | 293,084 | - | - | 1,130,662 |
| CAAP loan | 83,884 | 167,767 | 83,884 | - | 335,535 |
| Total | 1,756,652 | 460,851 | 83,884 | - | 2,301,387 |

c) Market risk

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

1. Foreign currency risk

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

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

| | Carrying Amount (USD) | Foreign Exchange Risk (USD) | |
|--|--------------------------|-----------------------------|--------------------------|
| | | -1% Earnings & Equity | +1% Earnings & Equity |
| Financial assets | | | |
| Accounts receivable | 564,866 | 5,649 | (5,649) |
| Financial liabilities | | | |
| Accounts payable and accrued liabilities | 225,246 | (2,252) | 2,252 |
| Total increase (decrease) | | 3,397 | (3,397) |

| | Carrying Amount (EURO) | Foreign Exchange Risk (EURO) | |
|----------------------------------|---------------------------|------------------------------|--------------------------|
| | | -1% Earnings & Equity | +1% Earnings & Equity |
| Financial liabilities | | | |
| Long-term debt | 176,705 | (1,767) | 1,767 |
| Total (decrease) increase | | (1,767) | 1,767 |

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at March 31, 2018.

2. Interest rate risk

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

21. 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 March 31, 2018.

22. INCOME (LOSS) PER COMMON SHARE

| Three Months Ended March 31, | 2018 | 2017 |
|---|-------------|------------|
| Net income (loss) for the period for basic and diluted earnings per share calculation | (\$295,207) | \$17,768 |
| Weighted average number of common shares outstanding | 75,712,526 | 75,167,058 |
| Effect of dilutive stock options and warrants | - | 1,662,166 |
| Effect of dilutive convertible debentures | - | - |
| Diluted weighted average number of common shares | 75,712,526 | 76,829,224 |
| Income (loss) per share - basic | (\$0.00) | \$0.00 |
| Income (loss) per share - diluted | (\$0.00) | \$0.00 |

As the Company was in a net loss position for the three month period ended March 31, 2018, the impact of the conversion of convertible securities is anti-dilutive.

For the three month period ended March 31, 2017, 400,000 stock options outstanding have not been included in the diluted income per share calculation because either the options exercise price or the unvested options exercise price taking into consideration remaining share-based payments were greater than the average market price of the common shares during the period.

23. SUBSEQUENT EVENTS

a) Subsequent to the three month period ended March 31, 2018, the Company has signed a long-term Master Service Agreement with the prestigious Montreal Heart Institute (MHI). While the agreement will consist of multiple projects, it is expected that the first clinical study will assess Ceapro's beta-glucan as a cholesterol-lowering agent in a multicenter, randomized, double-blind, placebo-controlled clinical trial (pending review and approval of the protocol by Health Canada).