

Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the periods ended September 30, 2016 and 2015, the financial position as at September 30, 2016, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at November 22, 2016. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at September 30, 2016, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2015, 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, 2015. All comparative percentages are between the periods ended September 30, 2016 and 2015 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A offers our assessment of Ceapro's future plans and operations as at November 22, 2016, 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 Veterinary Products 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. On April 1, 2016, the Company completed a vertical amalgamation with its wholly-owned subsidiary Ceapro Veterinary Products Inc.

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

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 Expansion 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 manufacturing infrastructure to become a global technology 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 customers 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 88% of trade receivables are due from one customer at September 30, 2016 (December 31, 2015 – 93% from two customers) and all trade receivables at September 30, 2016 and December 31, 2015 are current. These main customers 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 \$9,245,679 at September 30, 2016 (December 31, 2015 - \$1,681,125) 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	1,056,139	-	-	-	1,056,139
Long-term debt	1,080,779	1,452,714	164,833	-	2,698,326
Convertible debentures	998,610	-	-	-	998,610
CAAP loan	83,884	167,767	167,767	83,884	503,302
Total	3,219,412	1,620,481	332,600	83,884	5,256,377

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%	+1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	725,915	7,259	(7,259)
Financial liabilities			
Accounts payable and accrued liabilities	193,706	(1,937)	1,937
Total increase (decrease)		5,322	(5,322)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial liabilities			
Long-term debt	484,400	(4,844)	4,844
Total (decrease) increase		(4,844)	4,844

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 September 30, 2016.

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 on 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 inventory valuation, amortization of property and equipment, tax liabilities and tax assets, normal 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.

Future accounting policies not yet adopted

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

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

IFRS 9 “Financial instruments”

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

IFRS 9 is effective for reporting periods beginning on or after January 1, 2018. The Company’s management has not yet assessed the impact on these consolidated financial statements.

IFRS 15 “Revenue from Contracts with Customers”

In May 2014, the IASB released IFRS 15 “Revenue from Contracts with Customers” which presents new requirements for the recognition of revenue, replacing IAS 18 “Revenue”, IAS 11 “Construction contracts”, and several revenue related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The Company’s management has not yet assessed the impact of IFRS 15 on these consolidated financial statements.

IFRS 16 “Leases”

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

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

Results of Operations Periods Ended September 30, 2016 and 2015

CONSOLIDATED INCOME STATEMENT

	Quarters				Nine Months			
	Ended September 30,		Ended September 30,		Ended September 30,		Ended September 30,	
<i>\$000s except per share data</i>	2016	%	2015	%	2016	%	2015	%
Total revenues	3,018	100%	3,079	100%	11,249	100%	7,233	100%
Cost of goods sold	1,124	37%	1,196	39%	3,508	31%	2,808	39%
Gross margin	1,894	63%	1,883	61%	7,741	69%	4,425	61%
Research and product development	265	9%	142	5%	531	5%	485	7%
General and administration	528	17%	521	17%	1,548	14%	1,953	27%
Sales and marketing	1	0%	1	0%	4	0%	7	0%
Finance costs	49	2%	51	2%	196	2%	195	3%
Income from operations	1,051	35%	1,168	38%	5,462	49%	1,785	25%
Other operating loss	(157)	-5%	(162)	-5%	(477)	-4%	(351)	-5%
Income before tax	894	30%	1,006	33%	4,985	44%	1,434	20%
Income tax (expense) recovery	(249)	-8%	-	0%	(1,491)	-13%	36	0%
Net income	645	21%	1,006	33%	3,494	31%	1,470	20%
Basic net income per common share	0.009		0.016		0.053		0.024	
Diluted net income per common share	0.008		0.016		0.050		0.023	

During the nine month period ended September 30, 2016, the Company incurred a tax expense of \$1,491,000 relating to the estimated taxable income generated during the period and other tax adjustments relating to the filing of pre-amalgamation tax returns.

The Company utilized investment tax credits to reduce federal income taxes payable and recognized a current income tax payable for the provincial income taxes payable on pre-amalgamation taxable income in the first quarter.

The Company utilized deferred tax assets against the estimated taxable income for the second and third quarters resulting in no additional current income tax payable.

The following sections discuss the remaining results from operations.

Revenue

	Quarters			Nine Months		
	Ended September 30,		Change	Ended September 30,		Change
<i>\$000s</i>	2016	2015		2016	2015	
Total revenues	3,018	3,079	-2%	11,249	7,233	56%

PRODUCT SALES

Revenue of \$11,249,000 for the first nine months of 2016 represents a 56% increase over the first nine months of 2015. Ceapro has continued to benefit from a significant growth in the volume of product sales which increased by 56% over the prior period and a higher U.S. dollar relative to the Canadian dollar compared to the prior comparative period which has positively impacted total revenue by approximately \$500,000.

Revenue in the third quarter of 2016 was very consistent with the comparative quarter in 2015.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

	Quarters			Nine Months		
	Ended September 30,		Change	Ended September 30,		Change
<i>\$000s</i>	2016	2015		2016	2015	
Sales	3,018	3,079	-2%	11,249	7,233	56%
Cost of goods sold	1,124	1,196	-6%	3,508	2,808	25%
Gross margin	1,894	1,883	1%	7,741	4,425	75%
Gross margin %	63%	61%		69%	61%	

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

During the third quarter of fiscal 2016, cost of goods sold decreased by \$72,000 or 6% from \$1,196,000 in 2015 to \$1,124,000 in 2016. The decrease in cost of goods sold results partially from a similar decrease in sales and partially due to the product mix sold. The gross margin percentage improved slightly from 61% to 63% but remains consistent with the prior quarter.

The improved gross margin and gross margin percentage for the nine month period ended September 30, 2016 compared to the comparative period in 2015 is primarily due to the positive impact of higher output generated from operational efficiencies and favourable feedstock while overhead costs have remained consistent. The improvement is also partially due to the impact of different margins earned on products sold and partially due to the higher US dollar average exchange rate during the period.

RESEARCH AND PRODUCT DEVELOPMENT

\$000s	Quarters			Nine Months		
	Ended September 30,		Change	Ended September 30,		Change
	2016	2015		2016	2015	
Salaries and benefits	124	100		345	246	
Regulatory and patents	7	5		107	107	
Other	134	17		79	111	
Total research and product development expenditures	265	122	117%	531	464	14%
Product development - CeaProve®	-	20	-100%	-	21	-100%
Total research and product development expenditures	265	142	87%	531	485	9%

During the third quarter of fiscal 2016 research and development expenses before CeaProve® increased by 117% or \$143,000 in comparison with the same period in 2015. The overall increase in research and development expenses is primarily due to the commencement of expenditures on a clinical program with avenanthramides as an anti-inflammatory compound and on a pilot clinical study to develop beta glucan as a cholesterol reducer. The overall increase is also partially due to higher salary and benefit costs than the comparative quarter due to having significantly more research and development staff compared with the prior quarter which was offset by the receipt of grant funding for some key staff who are working primarily on the Company's Pressurized Gas Expanded (PGX) Technology project.

During the nine month period ended September 30, 2016 the overall investment in research and development expenses before CeaProve® increased over the prior comparative period by only 14% or \$67,000. This is primarily due to the noted increase in research and development staff and higher salary and benefit costs which were offset by lower other research and development expenses. Although other research and development expenses actually increased over the comparative period these were offset by the recognition of higher scientific research and development tax credits in the second quarter which resulted in a lower overall expense for other research and development.

CeaProve® expenditures relate to patent renewals. In the prior year the patent renewal expense was incurred in the third quarter and in the current year they will be incurred in the fourth quarter.

GENERAL AND ADMINISTRATION

\$000s	Quarters		Change	Nine Months		Change
	Ended September 30, 2016	2015		Ended September 30, 2016	2015	
Salaries and benefits	94	156		291	584	
Consulting	63	67		194	199	
Board of directors compensation	52	76		160	284	
Insurance	34	21		95	81	
Accounting and audit fees	11	20		71	57	
Rent	22	22		66	68	
Public company costs	107	60		251	178	
Travel	52	19		123	84	
Depreciation	42	44		120	132	
Legal	2	2		33	177	
Other	49	34		144	109	
Total general and administration expenses	528	521	1%	1,548	1,953	-21%

General and administration expense for the quarter ended September 30, 2016 was consistent with the prior period with an overall increase of \$7,000 or 1%. Although salaries and benefits expense and Board of Directors compensation was significant lower than the prior period this was offset primarily by an increase in public company costs and travel expenses.

In the prior period there was a large non-cash share-based payment accounting charge relating to stock options granted to employees, additional hires, and lump sum payments were made to a former officer. In the current period the Company did not have a significant option granting so the share-based payment charges were considerably lower. Board of Directors compensation expense was also significantly lower due to lower share-based payment expense. In the prior period there was a large non-cash accounting charge that resulted from the granting of stock options to new and existing directors and in the current period no options were granted to directors. These lower expenses were offset due to an increase in public company costs driven by an increased emphasis on investor relations and financing activities, increased communication, and website development costs. Travel expenses also increased due to increased conference attendance, meetings and attendance at corporate events.

During the nine month period ended September 30, 2016 general and administration expenses decreased by \$405,000 or 21% from \$1,953,000 to \$1,548,000. The overall decrease was primarily due to the same factors explained for the third quarter as well as due to the significant decrease in legal fees as the AVAC trial was completed in the first nine months of the prior year and there were no corresponding legal fees in the current nine month period.

SALES AND MARKETING

\$000s	Quarters		Change	Nine Months		Change
	Ended September 30, 2016	2015		Ended September 30, 2016	2015	
Courses, conferences & advertising	-	-		1	5	
Other	1	1		3	2	
Total sales and marketing	1	1	0%	4	7	-43%

Marketing expenses are negligible due to the Company's strategy to sell mostly through a distribution network instead of selling directly to end-users.

FINANCE COSTS

\$000s	Quarters		Change	Nine Months		Change
	Ended September 30, 2016	2015		Ended September 30, 2016	2015	
Interest on long-term debt	10	14		32	40	
Transaction costs	6	6		19	18	
Royalties	-	-		50	50	
Accretion of CAAP loan	12	14		36	40	
Accretion of convertible debentures	21	17		59	47	
	49	51	-4%	196	195	1%

Finance costs decreased by 4% or \$2,000 in the third quarter ended September 30, 2016 from \$51,000 in 2015 to \$49,000. The decrease primarily relates to lower interest expense on long term debt which is offset by a higher accretion expense relating to the convertible debentures.

Finance costs for the nine month period ended September 30, 2016 only increased by 1% from \$195,000 in the comparative period to \$196,000 in the current period. The increase is primarily a result of a higher accretion expense relating to the convertible debentures offset partially by a lower interest expense on long-term debt.

OTHER OPERATING LOSS

\$000s	Quarters		Change	Nine Months		Change
	Ended September 30, 2016	2015		Ended September 30, 2016	2015	
Foreign exchange loss	9	72		54	97	
Other loss (income)	4	2		6	(13)	
Plant relocation costs	144	88		417	267	
	157	162	-3%	477	351	36%

During the nine month period ended September 30, 2016, other operating loss increased by \$126,000 or 36% from \$351,000 in 2015 to \$477,000. The increase was primarily due to an increase in plant relocation costs of \$150,000 compared to the prior period. Plant relocation costs represent costs incurred relating to the new manufacturing facility that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized. In the nine month period ended September 30, 2016, these costs are higher than that of the comparative period primarily because the Company is now paying additional rent a 10,000 square foot expansion of the new facility.

During the quarter ended September 30, 2016, other operating loss decreased by \$5,000 or 3% from \$162,000 in 2015 to \$157,000. Although plant relocation costs increased during the quarter, consistent with the increase experienced in the nine month period, the total loss for the quarter decreased overall due to foreign exchange. The foreign exchange loss incurred in the quarter was \$63,000 lower than the loss incurred in the comparative quarter.

The Company's foreign exchange losses 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 current nine month period loss was partially offset by the realization of a \$19,000 gain (2015 - \$63,000 loss) from the translation of the Company's Euro denominated debt due to a slightly weaker Euro at September 30, 2016 compared with December 31, 2015.

DEPRECIATION AND AMORTIZATION EXPENSE

In the nine month period ended September 30, 2016, the total depreciation and amortization expense of \$287,000 (2015 - \$296,000) was allocated as follows: \$122,000 to general and administration expense (2015 - \$134,000), \$41,000 to inventory (2015 - \$45,000), and \$124,000 (2015 - \$117,000) to cost of goods sold. The expense is slightly lower than the prior year as the depreciable base of manufacturing equipment currently in use and assets used in the corporate head office is lower than the prior year.

During the nine month period ended September 30, 2016 the Company revised the useful life estimate of the leasehold improvements from the term of the lease to the term of the lease plus the renewal option and is applying the change prospectively. This change in estimate has also decreased amortization expense by approximately \$6,000 during the period.

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	2016			2015				2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues	3,018	4,168	4,064	3,435	3,079	2,439	1,714	2,059
Net income (loss)	645	1,636	1,213	3,452	1,006	658	(194)	97
Basic net income (loss) per common share	0.009	0.026	0.019	0.056	0.016	0.011	(0.003)	0.002
Diluted net income (loss) per common share	0.008	0.025	0.018	0.052	0.016	0.010	(0.003)	0.001

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.

The significant increase to net income in the fourth quarter of 2015 relates to the recognition of net deferred tax assets of \$1,147,000 and an investment tax credit receivable of \$603,000. Management assessed that it was probable that sufficient taxable income would be available in the foreseeable future to realize these assets.

Liquidity and Capital Resources

CAPITAL EMPLOYED

\$000s	September 30, 2016	December 31, 2015
Non-current assets	14,908	11,857
Current assets	11,264	3,846
Current liabilities	(3,361)	(5,203)
Total assets less current liabilities	22,811	10,500
Non-current liabilities	1,785	2,624
Shareholders' equity	21,026	7,876
Total capital employed	22,811	10,500

Non-current assets increased by \$3,051,000 primarily due to an acquisition of \$4,397,000 of property and equipment net of grants offset by a depreciation provision of \$285,000, a \$2,000 decrease in deposits held and a reduction of deferred tax assets of \$942,000 largely due to the utilization of deferred tax assets against estimated taxable income during the period offset by the recognition of tax benefits relating to share issuance costs incurred. The decrease was also attributable to a net decrease in the investment tax credit receivable of \$116,000 which related to the utilization of investment tax credits to offset current income taxes payable offset by the recognition of new investment tax credits from a scientific research and development claim.

Current assets increased by \$7,418,000. Cash increased by \$7,565,000 primarily due to the closing of a private placement during the period and trade and other receivables increased by \$404,000 offset by a decrease in prepaid expenses and deposits by \$131,000, and a decrease in inventories of \$420,000.

Current liabilities totaling \$3,361,000 decreased by the net amount of \$1,842,000 primarily due to the recognition of \$890,000 of deferred revenue and a decrease in trade payables and accrued liabilities of \$950,000, and a decrease in current income taxes payable of \$95,000, which were offset by an increase in the current portion of long-term debt of \$21,000, an increase in the current portion of the CAAP loan of \$8,000 and an increase of \$64,000 on the convertible debentures from accretion and the amortization of transaction fees.

Non-current liabilities totaling \$1,785,000 decreased by the net amount of \$839,000 mostly due to the repayment of long-term debt of \$756,000 and the reclassification of deferred tax liability against deferred tax assets in the amount of \$112,000 which was offset by an increase in the discounted CAAP loan in the amount of \$29,000 from accretion.

Equity of \$21,026,000 at September 30, 2016 increased by \$13,150,000 from equity of \$7,876,000 at December 31, 2015 primarily due to closing a \$10,000,000 private placement during the period which was offset by share issuance costs net of tax of \$645,000, the recognition of net income of \$3,494,000 for the nine months ended September 30, 2016, the recognition of share-based compensation of \$115,000, and an increase from the exercise of stock options of \$185,000.

NET DEBT

<i>\$000s</i>	September 30, 2016	December 31, 2015
Cash and cash equivalents, net of restricted cash	8,963	1,381
Current financial liabilities*	3,079	3,935
Non-current financial liabilities*	1,785	2,513
Total financial liabilities	4,864	6,448
NET DEBT	(4,099)	5,067

**Current and non-current financial liabilities include accounts payable and accrued liabilities, convertible debentures, current and non-current portion of long-term debt, and current and non-current portion of CAAP loan.*

As of September 30, 2016, the Company is no longer in a net debt position. The net improvement of \$9,166,000 from a net debt position of \$5,067,000 to a net worth position of \$4,099,000 was primarily due to the closing of an equity private placement during the period. As a result of the offering, non-restricted cash and cash equivalents increased by \$7,582,000 and \$950,000 of accounts payable and accrued liabilities was repaid. The net improvement was also due to a reduction in long-term debt from repayments of \$730,000 and a \$19,000 foreign exchange adjustment partially offset by the amortization of loan transaction fees of \$14,000. The improvement was offset by an increase in the convertible debenture from accretion and the amortization of transaction fees of \$64,000 and an increase in the CAAP loan from accretion of \$37,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended September 30, 2016 and 2015.

\$000s	Quarters		Nine Months	
	Ended September 30,	2015	Ended September 30,	2015
	2016		2016	
Sources of funds:				
Funds generated from operations (cash flow)	1,091	1,323	5,093	2,427
Changes in non-cash working capital items relating to operating activities	8	1	-	-
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	-	420	-	374
Grant used for capital assets	-	-	18	80
Share issuance	10,088	27	10,185	57
Convertible debentures	-	-	-	960
Long-term debt	-	185	-	900
	11,187	1,956	15,296	4,798
Uses of funds:				
Purchase of property and equipment	(574)	(544)	(1,828)	(1,117)
Purchase of leasehold improvements	(415)	(871)	(2,461)	(1,461)
Employee future benefits obligation repayment	-	-	-	(127)
Changes in non-cash working capital items relating to operating activities	-	-	(827)	(718)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	(684)	-	(843)	-
Interest paid	(49)	(58)	(158)	(164)
Share issuance costs	(884)	-	(884)	-
Repayment of royalty financial liability	-	-	-	(43)
Transaction costs	-	-	-	(29)
Repayment of long-term debt	(245)	(222)	(730)	(601)
	(2,851)	(1,695)	(7,731)	(4,260)
Net change in cash flows	8,336	261	7,565	538

Net change in cash flow was an increase of \$7,565,000 during the nine month period ended September 30, 2016 in comparison with an increase of \$538,000 for the same period in 2015. The significant increase in cash flow was primarily due to the closing of a private placement in July 2016 which netted cash proceeds to the Company of \$9,116,000 and due to the Company generating significantly more funds from operations during the current nine month period, \$5,093,000 compared to \$2,427,000 generated in the comparative period. These increases were offset by a significant repayment of accounts payable and accrued liabilities and a larger investment on the new manufacturing facility during the current nine month period.

In July 2016, pursuant to a brokered private placement, the Company issued 9,433,962 units (each a "Unit") at \$1.06 per Unit for aggregate proceeds of \$10,000,000. Each Unit consisted of one common share (each a "Purchased Share") and one-half of one common share purchase warrant (each a "Warrant"). Each whole Warrant entitles the holder thereof to acquire one additional common share (each a "Warrant Share") at an exercise price of \$1.50 for a period of 24 months following the closing of each tranche of the offering.

Echelon Wealth Partners Inc. ("Echelon") acted as sole agent in connection with the offering. The Company paid Echelon a cash commission of \$700,000 representing 7% of the gross proceeds raised. Echelon also received 660,377 compensation broker unit warrants (each a "Broker Unit Warrant") representing 7% of the total common shares issued in connection with the offering. Each Broker Unit Warrant entitles Echelon to acquire one common share (each a "Broker Share") and one-half of one common share purchase warrant (each a "Broker Warrant") at a price of \$1.06 for a period of 24 months following the closing of each tranche of the offering. Each whole Broker Warrant entitles Echelon to acquire one additional common share (each a "Broker Warrant Share") at an exercise price of \$1.50 for a period of 24 months following the closing of each tranche of the offering.

With the successful closing of the equity financing in July 2016 the Company now has a positive working capital balance of \$7,903,000 at September 30, 2016. 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 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 November 22, 2016 were 73,199,814 (November 10, 2015 – 62,147,281). In addition, 2,265,002 stock options, 4,716,981 warrants, and 660,377 broker unit warrants as at November 22, 2016 (November 10, 2015 – 3,536,667 stock options) were outstanding that are potentially convertible into an equal number of common shares at various prices.

GOVERNMENT FUNDING

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

b) During the year ended December 31, 2011, the Company entered into a Contribution Agreement with Alberta Innovates Bio Solutions (AI-Bio Solutions) for a non-repayable grant contribution totaling up to \$1,600,000 towards the construction of a new bio-processing facility and subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received \$750,000 in 2011, and received \$690,000 in 2013. A final payment of \$160,000 is expected to be received in 2016 and will be recorded as a reduction of capitalized expenditures.

c) During the year ended December 31, 2013, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding in an amount up to \$673,000. During the year ended December 31, 2015, the Company received or recorded as receivable the amount of \$79,640 (2014 - \$300,254) of which \$79,640 (2014 - \$294,623) was recorded as a reduction of capitalized expenditures. The project was completed during the year ended December 31, 2015.

d) 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, 2015, the Company received \$nil (2014 - \$89,100). An amount of \$66,983 (2014 - \$22,117) was expended on the research project. During the nine months ended September 30, 2016, the Company received \$89,100 which was fully expended on the research project. The Company anticipates receiving a final payment of up to \$19,800 in 2017.

e) During the year ended December 31, 2014, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to \$52,500 for certain research activities. During the year ended December 31, 2015, the Company received or recorded as a receivable \$8,443 (2014 - \$20,242). The project was completed during the year ended December 31, 2015.

f) During the year ended December 31, 2015, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to \$52,000 for certain research activities. During the year ended December 31, 2015, the Company received or recorded as a receivable \$14,083. During the nine month period ended September 30, 2016 the Company received an additional \$5,791 (September 30, 2015 - \$nil) and the project was completed.

g) 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 commercialization scale-up of the Company's Pressurized Gas Expanded (PGX) Technology. During the year ended December 31, 2015, the Company received \$300,000 and the balance was recorded as deferred revenue at December 31, 2015. During the nine months ended September 30, 2016 the company recognized \$17,572 as a reduction of capital expenditures and the balance of \$282,428 remains recorded as deferred revenue at September 30, 2016. The Company anticipates receiving an additional \$500,000 in 2017.

h) 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 salary costs incurred on the demonstration and testing of the Company's PGX Technology. During the year ended December 31, 2015, the Company received or recorded as a receivable \$54,234 which was recorded as a reduction of research and project development expenses. During the nine month period ended September 30, 2016 the Company received or recorded as a receivable \$199,506 (September 30, 2015 - \$nil) which has been recorded as a reduction of research and project development expenses. The Company anticipates receiving up to \$96,260 over the period from October 1, 2016 to February 28, 2017.

i) During the nine months ended September 30, 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. The Company anticipates receiving up to \$33,000 over the period from October 1, 2016 to February 28, 2017.

j) During the nine months ended September 30, 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 commercialization advancement of the Company's PGX Technology. The Company received \$50,000 in October 2016 which will be recorded as deferred revenue until the eligible expenditures are incurred. The Company also anticipates receiving up to \$93,755 in 2017 and \$104,100 in 2018.

Related Party Transactions

During the nine month period ended September 30, 2016, \$4,000 (2015 - \$4,000) of interest was earned by a company controlled by an officer and by a close family member of a director from their \$75,000 (2015 - \$75,000) investments in the convertible debenture financing.

During the nine month period ended September 30, 2016, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling \$424,000 (2015 - \$405,000) and share-based payments expense for key management personnel was \$58,000 (2015 - \$275,000).

The amount payable to directors at September 30, 2016 was \$40,000 (2015 - \$106,000). Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities at September 30, 2016 was \$21,000 (2015 - \$21,000).

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. were served with a statement of claim from AVAC Ltd. alleging damages of \$724,500 pursuant to a product development agreement. The Company and Ceapro Veterinary Products Inc. 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 have been submitted to the presiding judge. The Company believes it has presented strong defenses to the allegations at trial and no provision has been made in the consolidated financial statements for this litigation.

(b) During the year ended December 31, 2012, the Company and its wholly-owned subsidiary, Ceapro Technology Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$1,470,000 pursuant to two product development agreements. The Company and Ceapro Technology Inc. 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 have been submitted to the presiding judge. The Company believes it has presented strong defenses to the allegations at trial and no provision has been made in the consolidated financial statements for this litigation.

(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

We are very pleased with Ceapro's performance during the third quarter and for the first nine months of 2016. Year to date financial results are the best in Ceapro's history where revenues and profits recorded after nine months of 2016 have already surpassed results obtained for the full year 2015. Year over year, revenues and net profits have respectively increased by 56% (\$4,016,100) and 138% (\$2,023,900). As of September 30, 2016, the Company is no longer in a net debt position and has retained earnings of \$3,435,000 compared to a deficit of \$59,200 as of December 31, 2015. The Company now also has a positive working capital balance of \$7,903,000 as of September 30, 2016 compared to a working capital deficiency of \$1,356,000 as of December 31, 2015.

The renewal of a long term agreement with our major distributor Symrise AG has greatly contributed to Ceapro's exceptional results and we expect this positive trend to be maintained over the next 12 months. The foreseen continued strength of the US dollar should also continue to secure our base business in cosmeceuticals.

While we are completing the commissioning of the extraction/fractionation part of the new production area of the Edmonton based facility, we are pursuing the transition to nutraceuticals and pharmaceuticals by accelerating our investments for the clinical development programs with our value drivers' beta glucan and avenanthramides to be tested respectively as cholesterol reducer and anti-inflammatory products.

Further, we will actively pursue over the next twelve months an extensive research program with our proprietary PGX platform technology for which we have the worldwide rights for all industrial applications.

We are committed to remain focused on executing our strategic imperatives for growth that will drive significant value to all of our shareholders in the near, mid and long term.

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.