The MD&A provides commentary on the results of operations for the years ended December 31, 2017 and 2016, the financial position as at December 31, 2017, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 17, 2018. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2017, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2016, 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, 2016. All comparative percentages are between the years ended December 31, 2017 and 2016 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A offers our assessment of Ceapro's future plans and operations as at April 17, 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 93% of trade receivables are due from one distributor at December 31, 2017 (December 31, 2016 – 86% from two distributors) and all trade receivables at December 31, 2017 and December 31, 2016 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 $6,173,895 at December 31, 2017 (December 31, 2016 - $9,150,035) 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	979,626	-	-	-	979,626
Long-term debt	897,053	457,537	-	-	1,354,590
CAAP loan	83,884	167,767	83,884	-	335,535
Total	1,960,563	625,304	83,884	-	2,669,751

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	993,433	9,934	(9,934)
Financial liabilities			
Accounts payable and accrued liabilities	271,662	(2,717)	2,717
Total increase (decrease)		7,218	(7,218)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial liabilities			
Long-term debt	228,904	(2,289)	2,289
Total (decrease) increase		(2,289)	2,289

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at December 31, 2017.

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, 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.

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 does not expect any material impact from the adoption of IFRS 9 on the 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 does not expect any material impact from the adoption of IFRS 15 on the 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
Years Ended December 31, 2017, 2016 and 2015

CONSOLIDATED INCOME STATEMENT

$000s except per share data	2017	%	2016	%	2015	%
Total revenues	**12,926**	**100%**	**13,674**	**100%**	**10,668**	**100%**
Cost of goods sold	5,654	44%	4,321	32%	3,639	34%
Gross margin	**7,272**	**56%**	**9,353**	**68%**	**7,029**	**66%**
Research and product development	1,606	12%	919	7%	625	6%
General and administration	2,841	22%	2,187	16%	2,519	24%
Sales and marketing	32	0%	5	0%	8	0%
Finance costs	137	1%	243	2%	247	2%
Income from operations	**2,656**	**21%**	**5,999**	**44%**	**3,630**	**34%**
Royalty provision - Ceapro Inc.	(779)	-6%	-	0%	-	0%
Royalty provision - Ceapro Technology Inc.	(1,375)	-11%	-	0%	-	0%
Other expenses (income)	(929)	-7%	(636)	-5%	204	2%
Income (loss) before tax	**(427)**	**-3%**	**5,363**	**39%**	**3,834**	**36%**
Income tax (expense) recovery	(531)	-4%	(1,743)	-13%	1,088	10%
Net income (loss)	**(958)**	**-7%**	**3,620**	**26%**	**4,922**	**46%**
Basic net income (loss) per common share	(0.013)		0.053		0.080	
Diluted net income (loss) per common share	(0.013)		0.051		0.075	

The financial results for the year ended December 31, 2017 have been significantly impacted by the recognition of one-time royalty provisions of $779,000 for Ceapro Inc. and $1,375,000 for a subsidiary that result from the rendering of judgements subsequent to the year-end, on claims filed against the Company and subsidiaries in 2011 and 2012. Please refer to the “Commitments and Contingencies” section for additional information. These provisions are not related to ongoing operations which will be discussed in the following sections.

Revenue

	Year Ended December 31,			Quarter Ended December 31,		
$000s	2017	2016	Change	2017	2016	Change
Total revenues	12,926	13,674	-5%	2,969	2,425	22%

Revenue for the year ended December 31, 2017 amounted to $12,926,000 compared to $13,674,000 in 2016 representing a decrease of 5% or $748,000. A significant portion of the difference is attributable to a lower U.S dollar relative to the Canadian dollar compared to the comparative year which negatively impacted revenue by approximately $427,000. The difference is also attributable to a decrease in sales volumes of 11% primarily due to significantly lower sales of beta glucan which were offset by an increase in sales volumes of avenanthramides.

Revenue for the fourth quarter ended December 31, 2017 amounted to $2,969,000 compared to $2,425,000 for the fourth quarter ended December 31, 2016, representing an increase of 22% or $544,000. The increase was primarily related to an overall increase in product sales volumes of 29%, mostly due to increased sales volumes of avenanthramides. The increase in revenue from an increase in sales volumes were partially offset by a lower U.S dollar relative to the Canadian dollar compared to the comparative quarter which negatively impacted revenue by approximately $127,000.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

$000s	Year Ended December 31, 2017	2016	Change	Quarter Ended December 31, 2017	2016	Change
Sales	12,926	13,674	-5%	2,969	2,425	22%
Cost of goods sold	5,654	4,321	31%	1,299	813	60%
Gross margin	7,272	9,353	-22%	1,670	1,612	4%
Gross margin %	56%	68%		56%	66%	

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.

The year ended December 31, 2017 reflects a decrease in revenue of 5%, while the cost of goods sold increased by 31% or $1,333,000 resulting in a 22% decrease in gross margin or a decrease of $2,081,000. The gross margin percentage decreased from 68% in the prior year to 56% for the year ending December 31, 2017. The decrease in the gross margin percentage was a result of a number of factors including higher production salaries due to the hiring of additional operators and staff to support the operation of both the existing and the new production facility during the commissioning and validation period and to facilitate training of all operators, higher utilities and maintenance costs, an increase in quality control analysis and materials, and an increase in the cost of materials primarily due to a significant increase in the cost of feedstock. The decrease in the gross margin percentage is also attributable to higher processing required with the current inventory of feedstock, requiring both additional time for extraction and additional materials. Feedstock is a natural product and will vary from growing period to growing period. The Company mitigates this variability by continuously analyzing thousands of grain samples each year and only acquiring feedstock with the properties most suitable for our extraction process.

During the fourth quarter of fiscal 2017, cost of goods sold increased by $486,000 or 60% compared to the comparative quarter. The increase is partly the result of an increase in sales of 22%, however, the percentage increase in the cost of sales was higher overall resulting in a lower gross margin percentage of 56% compared to 66% in the comparative quarter. The decrease in the gross margin percentage was a result of the same factors that impacted the year ended December 31, 2017, although the impact of the increased cost of grain was lower and the impact from a higher allocation of overhead over less production from higher processing required was more significant.

RESEARCH AND PRODUCT DEVELOPMENT

$000s	Year Ended December 31, 2017	2016	Change	Quarter Ended December 31, 2017	2016	Change
Salaries and benefits	716	487		221	142	
Regulatory and patents	155	173		8	66	
Other	735	259		45	180	
Total research and product development expenditures	1,606	919	75%	274	388	-29%

During the year ended December 31, 2017, research and development expenses increased by 75% or $687,000. The increase is primarily due to increased investment on the development of the Company's protocol and related mandatory regulatory activities for a pilot clinical study for the development of beta glucan as a cholesterol reducer, an increase in expenditures on the Company's Pressurized Gas eXpanded ("PGX") Technology project, and to the commencement of a research program to study the bio activity of new formulations of the Company's value driver active ingredients. The decrease in other research expense in the fourth quarter is related to the Company's annual SRED claim which was filed later in 2017 and was recognized in the fourth quarter of the current year. In the prior year it was recognized in the second quarter.

Research and development salaries and benefits increased in both the year ended and quarter ended December 31, 2017 due to additional research and development staff hired throughout 2016. While the Company continued to receive grant funding for some key staff who are working primarily on the Company's PGX Technology project, the funding in 2017 was lower than the comparative year, which also raised the salaries and benefits 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 significantly lower than the comparative fourth quarter; however, while the overall expense for the current year is slightly lower than 2016, it is comparable.

The increase in research and development expenses 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. The Company intends to continue to increase investment in research and development in the next fiscal year.

GENERAL AND ADMINISTRATION

	Year Ended December 31,			Quarter Ended December 31,		
$000s	2017	2016	Change	2017	2016	Change
Salaries and benefits	1,067	428		299	137	
Consulting	480	407		120	213	
Board of directors compensation	162	211		40	51	
Insurance	133	130		38	35	
Accounting and audit fees	97	89		17	18	
Rent	92	88		26	22	
Public company costs	294	314		42	63	
Travel	100	149		23	26	
Depreciation and amortization	141	139		43	19	
Legal	45	38		26	5	
Other	230	194		54	50	
Total general and administration expenses	2,841	2,187	30%	728	639	14%

General and administration expense for the year ended December 31, 2017 increased by $654,000 or 30% from the prior year. The increase for both the year and quarter ended December 31, 2017 was primarily due to an increase in salaries and benefits expense related to the granting of stock options in January which resulted in an increase in share-based payments of approximately $506,000. While the share based payment accounting charge impacts net income, it has no impact on cash flows. Also in January, the base compensation of the Chief Executive Officer was reviewed for the first time in over four years to better realign the compensation to market. This resulted in an overall increase to consulting fees of approximately $228,000 which was offset by additional fees of $150,000 paid to an officer in the fourth quarter of 2016. No additional fees were paid to the officer in the fourth quarter of 2017.

For both the year and quarter ended December 31, 2017, the overall increase in general and administration expense was offset by lower Board of Director compensation due to a decrease in share-based payment expense relating to directors.

For the year ended December 31, 2017, the overall increase in general and administration expense was also offset by a decrease in travel expenses of $49,000 as attendance at conferences, meetings, and corporate events was lower in 2017.

For the fourth quarter ended December 31, 2017 the increase in general and administration expense was also partially due to an increase in legal expense relating to the acquisition of Juvente, as well as to an increase in depreciation and amortization due to the commencement of amortization of intangible assets acquired during the purchase of Juvente. These increases were offset by lower public company costs as in the comparative quarter there was an increase in communication material costs, website development costs, and an increased emphasis on investor relations and financing activities.

SALES AND MARKETING

	Year Ended December 31,			Quarter Ended December 31,		
$000s	2017	2016	Change	2017	2016	Change
Courses, conferences & advertising	25	1		18	-	
Other	7	4		4	1	
Total sales and marketing	32	5	540%	22	1	2100%

The Company's strategy throughout 2016 and 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 anti-aging products.

FINANCE COSTS

	Year Ended December 31,			Quarter Ended December 31,		
$000s	2017	2016	Change	2017	2016	Change
Interest on long-term debt	20	38		-	6	
Transaction costs	18	25		4	6	
Royalties	55	50		-	-	
Accretion of CAAP loan	44	50		12	14	
Accretion of convertible debenture	-	80		-	21	
	137	243	-44%	16	47	-66%

Finance costs decreased by 44% or $106,000 in the year ended December 31, 2017 from $243,000 in 2016 to $137,000. The decrease primarily relates to an $80,000 accretion charge for convertible debentures in the comparative year for which there was no charge in the current year as the convertible debentures were all converted to equity during the year ended December 31, 2016. The decrease is also 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.

Finance costs for the fourth quarter of 2017 decreased by $31,000, from $47,000 in 2016 to $16,000, due to the same factors that have impacted the year.

OTHER EXPENSES

$000s	Year Ended December 31, 2017	2016	Change	Quarter Ended December 31, 2017	2016	Change
Foreign exchange loss (income)	133	7		2	(47)	
Quality management system	82	47		-	47	
Other loss (income)	(3)	10		(7)	4	
Plant relocation costs	659	572		222	155	
Loss on disposal of equipment	59	-		59	-	
	930	636	46%	276	159	74%

During the year ended December 31, 2017, other expenses increased by $294,000 or 46% from $636,000 in 2016 to $930,000.

The increase was primarily due to a $126,000 increase in foreign exchange loss over the comparative year. The Company's foreign exchange losses and gains are primarily due to the translation of US dollar denominated accounts receivable, accounts payable, and deferred revenue balances, and from the timing of the realization of these balances. Foreign exchange will fluctuate between the quarters due to fluctuations between the US dollar and the Canadian dollar. The foreign exchange gains and losses are also impacted by the translation of the Company's Euro denominated debt. During the year ended December 31, 2017, the Euro debt translation resulted in a $30,000 loss compared to a $44,000 gain in the comparative year.

The overall increase in other expenses was also impacted by an $87,000 increase over the comparable year 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. A significant amount of the increase was attributed to the fourth quarter as a result of equipment repairs that could not be capitalized and utilities expense increases.

The increase was also related to an increase in expenditures on the improvement of the Company's quality management system. The Company commenced a project to implement an improved quality management system in the fourth quarter of fiscal 2016 which continued through the first two quarters in 2017. 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 quality management system project will start back up again in the first quarter of fiscal 2018.

Other expenses for the quarter ended December 31, 2017 increased by $117,000 or 74% from $159,000 in Q4 2016 to $276,000 incurred in Q4 of 2017. The increase was partially due to the increase in foreign exchange loss and plant relocation costs as discussed in the preceding paragraphs, but was also due to a $59,000 loss on the disposal of an excess piece of manufacturing equipment during the quarter.

DEPRECIATION AND AMORTIZATION EXPENSE

In the year ended December 31, 2017, the total depreciation and amortization expense of $326,000 (2016 - $359,000) was allocated as follows: $144,000 to general and administration expense (2016 - $141,000), $6,000 to inventory (2016 - $55,000), and $176,000 (2016 - $163,000) to cost of goods sold.

Depreciation expense is 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. 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	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues	2,969	3,600	3,174	3,183	2,425	3,018	4,168	4,064
Net income (loss)	(1,642)	296	370	18	126	645	1,636	1,213
Basic net income (loss) per common share	(0.022)	0.004	0.005	0.000	0.002	0.009	0.026	0.019
Diluted net income (loss) per common share	(0.022)	0.004	0.005	0.000	0.002	0.008	0.025	0.018

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 2017 includes a non-cash share-based payment accounting charge of $307,000 primarily relating to the granting of stock options in January 2017. This accounting charge is considerably higher than in any of the comparable quarters presented as options granted during these periods were not as significant.

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

Liquidity and Capital Resources

CAPITAL EMPLOYED

$000s	December 31, 2017	December 31, 2016
Non-current assets	18,811	14,998
Current assets	8,997	11,394
Current liabilities	(4,067)	(2,534)
Total assets less current liabilities	23,741	23,858
Non-current liabilities	1,197	1,457
Shareholders' equity	22,544	22,401
Total capital employed	23,741	23,858

Non-current assets increased by $3,813,000 primarily due to the acquisition of $3,472,000 of property and equipment net of grants offset by a depreciation provision of $316,000 and a disposal of equipment of $104,000. The increase was also due to the recognition of $120,000 of new investment tax credits from a scientific research and development claim, the acquisition of intangible assets of $500,000 offset by an amortization provision of $10,000, and goodwill of $219,000 from the purchase of Juvente, the utilization of $64,000 of deferred tax assets against taxable income for the period, and the utilization of $3,000 of deposits.

Current assets decreased by $2,397,000. Cash decreased by $2,976,000 primarily due to the acquisition of property and equipment and Juvente, a decrease of $98,000 in inventories, and a decrease in prepaid expenses and deposits of $94,000 which was offset by an increase in trade and other receivables of $771,000.

Current liabilities totaling $4,067,000 increased by the net amount of $1,533,000 primarily due to the recognition of a royalty provision of $2,154,000 resulting from the judgements on lawsuits subsequent to the year-end and an increase in trade payables of $10,000 which was offset by the recognition of $490,000 of deferred revenue and a decrease in the current portion of long-term debt of $141,000.

Non-current liabilities totaling $1,197,000 decreased by the net amount of $260,000 primarily due to the repayment of and reclassification to current portion of long-term debt of $825,000 and the repayment of the CAAP loan net of accretion of $40,000 which was offset by the utilization of an additional $605,000 of deferred tax assets against taxable income for the year which resulted in a net deferred tax liability of $605,000 at December 31, 2017.

Equity of $22,544,000 at December 31, 2017 increased by $143,000 from equity of $22,401,000 at December 31, 2016 due to the recognition of a net loss of $958,000 for the year ended December 31, 2017, the recognition of share-based compensation of $587,000, and an increase from the exercise of stock options and warrants of $514,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the years ended December 31, 2017 and 2016.

	Year Ended Ended December 31,		Quarter Ended Ended December 31,	
$000s	2017	2016	2017	2016
Sources of funds:				
Funds generated from operations adjusted for non-cash items	667	5,594	-	501
Grant used for capital assets	616	196	87	178
Share issuance	514	10,445	16	260
Changes in non-cash working capital items relating to operating activities	988	-	2,065	321
Proceeds from disposal of equipment	45	-	45	-
Deposits relating to investing activities	128	-	660	-
	2,958	16,235	2,873	1,260
Uses of funds:				
Funds used in operations adjusted for non-cash items	-	-	(1,546)	-
Purchase of property and equipment	(3,108)	(2,268)	(1,635)	(440)
Purchase of leasehold improvements	(911)	(2,576)	(54)	(115)
Deposits relating to investing activities	-	(137)	-	(137)
Changes in non-cash working capital items relating to operating activities	-	(506)	-	-
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	(89)	(1,131)	104	(288)
Interest paid	(81)	(203)	(12)	(45)
Share issuance costs	-	(884)	-	-
Acquisition of Juvente, net of cash acquired	(647)	-	(647)	-
Repayment of long-term debt	(1,098)	(1,061)	(344)	(331)
	(5,934)	(8,766)	(4,134)	(1,356)
Net change in cash flows	(2,976)	7,469	(1,261)	(96)

Net change in cash flow was a decrease of $2,976,000 during the year ended December 31, 2017 in comparison with an increase of $7,469,000 for the year ended December 31, 2016. The significant difference is 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 more funds from operations in 2016 a record breaking comparative year. In addition, the Company purchased Juvente for $647,000 (net of cash acquired) in 2017. The higher financing and operating cash flows generated in 2016 and the Juvente purchase in 2017 were partially offset by $825,000 lower expenditures on property and equipment and leaseholds in 2017 as well as more cash generated from grant funding in 2017.

The net change in cash flows from operations also reflects increased spending on research and development expenses. While the Company views increased spending on research and development projects relating to its enabling technologies, research on product development and new applications for its value driving products as an important expenditure that will support value creation and future revenues and profits, during the research stage it has a negative impact on net income and net cash flows from operations. The Company intends to continue to increase investment in research and development.

Capital expenditures during the year ended December 31, 2017 were lower than the comparative year. During the year ended December 31, 2016, the expenditures related primarily to the construction of the extraction/fractionation part of the new facility. This construction was completed at the end of the third quarter of 2016.

During the year ended December 31, 2017, the property and equipment expenditures related partially to the commissioning and validation of the extraction/fractionation processes, partially to the construction of a pilot scale skid for the Company's PGX Technology for which grant funding was recognized, as well as to new equipment improvements made to continuously improve the manufacturing process. The Company also purchased a custom designed 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 in the additional new facility space obtained in 2016. 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.

On October 25, 2017, the Company completed an acquisition of all of the issued and outstanding shares of Juvente^{DC} Inc., a Quebec based cosmeceutical company involved in the development and commercialization of natural anti-aging products, for total consideration of $650,000 paid in cash. The acquisition of Juvente represents a step forward in executing on a strategic market diversification strategy, to expand our product portfolio with the development of formulations that utilize our two value drivers, beta glucan and avenanthramides, and to enable us to enter into the high-end cosmeceuticals market and market directly to the end-user. The Company will be focusing on advertising and developing marketing channels in 2018 and on the development of additional products to the Juvente line.

The Company has a positive working capital balance of $4,929,733 at December 31, 2017. 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 April 17, 2018 were 75,756,859 (April 5, 2017 – 75,210,225). In addition, 2,598,668 stock options, 4,244,480 warrants, and 660,377 broker unit warrants as at April 17, 2018 (April 5, 2017 – 2,485,302 stock options, 4,294,480 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, 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 was received in 2016 and was recorded as a reduction of capitalized expenditures. The project was completed during the year ended December 31, 2016.

c) 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). An amount of $19,800 (2016 - $89,100) was expended on the research project. The project has been completed at December 31, 2017.

d) 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, 2017, the Company received or recorded as a receivable $NIL (2016 - $5,791) which has been recorded as a reduction of research and development activities. The project was completed during the year ended December 31, 2016.

e) 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, 2015, the Company received $300,000. During the year ended December 31, 2016, the Company recognized $17,572 as a reduction of capital expenditures and the balance of $282,428 remained recorded as deferred revenue at December 31, 2016. During the year ended December 31, 2017, the Company received an additional $300,000 and recognized $557,908 on eligible equipment and $85,200 on eligible expenses. At December 31, 2017, the Company has expended $60,680 on eligible expenditures in excess of grant funds received and has recognized a receivable for this balance. The Company anticipates receiving the remaining $200,000 of contributions in 2018.

f) 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 has been completed at December 31, 2017.

g) 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 has been completed at December 31, 2017.

h) 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 has expended $30,986 on eligible expenditures in excess of grant funds received and has recognized a receivable for this balance. The Company anticipates receiving the remaining $133,660 of contributions in 2018.

Related Party Transactions

During the year ended December 31, 2017, $Nil (2016 - $6,000) of interest was earned by a company controlled by an officer and by a close family member of a director from their $Nil (2016 - $75,000) investments in the convertible debenture financing.

During the year ended December 31, 2017, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $826,000 (2016 – $750,000) and share-based payments expense for key management personnel was $554,000 (2016 - $74,000).

The amount payable to directors at December 31, 2017 was $40,000 (2016 - $40,000). Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities at December 31, 2017 was $15,000 (2016 - $150,000).

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.

Subsequent to the year ended December 31, 2017, 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 December 31, 2017 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 December 31, 2017.

(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.

Subsequent to the year ended December 31, 2017, 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 December 31, 2017 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:

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.

(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 grow our base business in cosmeceuticals through the existing distribution network, we have laid excellent groundwork to diversify our business model to get closer to the customer through the offering of high-end value final cosmeceutical products, through Juvente.

Given the significant investments made in our beta glucan and avenanthramides product portfolio and the encouraging results obtained so far, Ceapro is well poised to transition to its next phase of growth for expansion into the profitable nutraceutical sector over the next 12 months. We anticipate final data from the bioavailability study with the chemical entity beta glucan CoQ10 in the coming weeks while results with avenanthramides in exercise-induced inflammation will be disclosed on June 12, 2018.

Positive results will accelerate partnering discussions with key players 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.