The MD&A provides commentary on the results of operations for the years ended December 31, 2020 and 2019, the financial position as at December 31, 2020, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 20, 2021. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2020, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2019, which are prepared in accordance with International Financial Reporting Standards (IFRS), and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2019. All comparative percentages are between the years ended December 31, 2020 and 2019 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A offers our assessment of Ceapro's future plans and operations as at April 20, 2021 and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

Vision, Core Business, and Strategy

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

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

Our products include:

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

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

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

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

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

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

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

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

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

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

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

- Developing and improving manufacturing technologies to ensure efficiencies; and

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

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

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

- Adding value to all aspects of our business;

- Enhancing the health of humans and animals;

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

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

- Developing personnel through guidance, opportunities, and encouragement.

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

Risks and Uncertainties

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

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

a) Credit risk

Trade and other receivables

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 90% of trade receivables are due from one distributor at December 31, 2020 (December 31, 2019 – 97% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	December 31, 2020 $	December 31, 2019 $
Not yet due	407,993	1,481,978
Less than 30 days past due	1,419,731	1,954,651
Less than 60 days past due, more than 30 days past due	191,999	-
More than 60 days past due	-	222,912
Total	2,019,723	3,659,541

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

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company-wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward-looking estimates. The expected credit losses calculated for December 31, 2020 and December 31, 2019 are not significant and have not been recognized.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $5,369,029 at December 31, 2020 (December 31, 2019 - $1,857,195) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

The following are the contractual maturities of the Company's financial liabilities and obligations as at December 31, 2020:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	1,067,622	-	-	-	1,067,622
CAAP loan	83,884	-	-	-	83,884
Total	1,151,506	-	-	-	1,151,506

c) Market risk

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

1. Foreign currency risk

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

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company. The amounts have been translated based on the exchange rate at December 31, 2020.

	Carrying Amount (USD)	**Foreign Exchange Risk (CDN)**	
		-1%	**+1%**
		Earnings & Equity	**Earnings & Equity**
Financial assets			
Accounts receivable	1,583,613	20,162	(20,162)
Financial liabilities			
Accounts payable and accrued liabilities	170,811	(2,175)	2,175
Total increase (decrease)		17,988	(17,988)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2020.

2. Interest rate risk

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

d) Share price risk

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

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

e) People and process risk

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

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

f) Loss of key personnel

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

g) Interruption of raw material supply

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

h) Environmental issues

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

i) 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.

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 can cause the Company to incur significant expenses. Furthermore, because litigation is inherently unpredictable, and can be very expensive, the results of any such actions may have a material adverse effect on our business, operations, or financial condition.

k) 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.

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 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.

m) Public health crisis

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

Results of Operations
Years Ended December 31, 2020, 2019, and 2018

CONSOLIDATED INCOME STATEMENT

$000s except per share data	2020	%	2019	%	2018	%
Total revenues	**15,121**	**100%**	**12,880**	**100%**	**11,593**	**100%**
Cost of goods sold	7,499	50%	7,435	58%	5,455	47%
Gross margin	**7,622**	**50%**	**5,445**	**42%**	**6,138**	**53%**
Research and product development	1,882	12%	2,394	19%	2,666	23%
General and administration	3,283	22%	2,952	23%	3,000	26%
Sales and marketing	111	1%	425	3%	225	2%
Finance costs	231	2%	261	2%	119	1%
Income (loss) from operations	**2,115**	**14%**	**(587)**	**-5%**	**128**	**1%**
Impairment on intangible assets	-	0%	-	0%	(430)	-4%
Impairment on goodwill	-	0%	-	0%	(219)	-2%
Gain on settlement of royalty provisions	-	0%	-	0%	723	6%
Other income (expenses)	(259)	-2%	(549)	-4%	(1,123)	-10%
Income (loss) before tax	**1,856**	**12%**	**(1,136)**	**-9%**	**(921)**	**-8%**
Income taxes	-	0%	3	0%	605	5%
Net income (loss)	**1,856**	**12%**	**(1,133)**	**-9%**	**(316)**	**-3%**
Basic net income (loss) per common share	0.024		(0.015)		(0.004)	
Diluted net income (loss) per common share	0.024		(0.015)		(0.004)	

The following sections discuss the consolidated results from operations.

Revenue

$000s	Year Ended December 31, 2020	2019	Change	Quarter Ended December 31, 2020	2019	Change
Total revenues	15,121	12,880	17%	2,706	3,721	-27%

Revenue of $15,121,000 for the year ended December 31, 2020 was 17% higher than the comparative year. The increase in sales revenue was primarily driven by a 33% increase in the sale of avenanthramides which was partially offset by a 16% decrease in the sale of beta glucan year over year. The higher sales revenue was also partially due to a higher U.S. dollar relative to the Canadian dollar compared to the comparative year, which positively impacted revenue by approximately $280,000.

Total sales revenue for the fourth quarter ended December 31, 2020 amounted to $2,706,000 compared to $3,721,000 for the fourth quarter ended December 31, 2019, which represented a decrease of 27%. The sale of avenanthramides and beta glucan were both lower in the fourth quarter. Foreign exchange did not have a large impact. It negatively impacted revenue by approximately $32,000, due to a lower U.S. dollar relative to the Canadian dollar compared to the comparative quarter.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

$000s	Year Ended December 31, 2020	2019	Change	Quarter Ended December 31, 2020	2019	Change
Sales	15,121	12,880	17%	2,706	3,721	-27%
Cost of goods sold	7,499	7,435	1%	1,704	2,107	-19%
Gross margin	7,622	5,445	40%	1,002	1,614	-38%
Gross margin %	50%	42%		37%	43%	

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 year ended December 31, 2020, revenue increased by 17%, but cost of goods sold only increased by 1%. The increase in cost of goods sold was significantly lower than the increase in revenue which has contributed to an overall increase in the gross margin percentage from 42% to 50%.

Cost of goods sold throughout the year was impacted significantly from the quality of the raw materials used that resulted in a higher output of finished goods; however, this positive impact was partially offset in the fourth quarter of 2020 as the final stages of the transition from the Leduc site to the Edmonton site were completed. Some key pieces of equipment used in the Leduc site were incorporated into the Edmonton process, and some new equipment purchases were installed, which will benefit the process in the long run and improve efficiencies but in the short term caused some disruption in the fourth quarter and effectively lowered production output. On an annual basis, overhead, including fixed and variable costs and amortization, was consistent with the comparative year while production volumes increased by 15%, so the cost of the goods sold in the year was lower on a per kilogram basis.

During the fourth quarter of 2020, revenue decreased by 27%, but cost of goods sold only decreased by 19%. The lower decrease in cost of goods sold compared to the decrease in revenue contributed to an overall decrease in the gross margin percentage from 43% to 37%.

Cost of goods sold in the fourth quarter was impacted from the final stages of the transition of the manufacturing sites as previously noted and while overhead, including fixed and variable costs and amortization was slightly lower than the comparative quarter, largely due to not also running the Leduc site, production volumes decreased by 29%, so the cost of goods sold in the quarter was higher on a per kilogram basis.

Gross margin for the quarter was also negatively impacted from a lower sales margin product mix compared with the fourth quarter in the prior year.

RESEARCH AND PRODUCT DEVELOPMENT

	Year Ended December 31,			Quarter Ended December 31,		
$000s	2020	2019	Change	2020	2019	Change
Salaries and benefits	797	935		212	213	
Regulatory and patents	160	303		22	23	
Clinical studies	643	890		264	235	
Other	282	266		3	3	
Total research and product development expenditures	1,882	2,394	-21%	501	474	6%

For the year ended December 31, 2020, research and development expenses have decreased by $512,000 or 21%. The decrease is primarily due to lower expenditures related to the pilot clinical study for the development of beta glucan as a cholesterol reducer, partially due to lower salaries and benefits expense, and due to lower regulatory and patent expense.

During the quarter ended December 31, 2020, research and development expenses increased by $27,000 or 6%. The increase is primarily due to higher expenditures related to the pilot clinical study for the development of beta glucan as a cholesterol reducer and by higher regulatory and patent expense.

During the year ended December 31, 2020, activities relating to the beta glucan study have been focused on patient enrollment and expenditures have been paid to the Montreal Heart Institute. There were lower expenditures in the first six months of 2020 which was a reflection of the slower than expected enrollment of patients for the study. This was partially due to an amendment to the protocol that was only approved by Health Canada in the first quarter of 2020 and which also needed approval at all centers conducting the study. The amendment was to allow the evaluation of subjects to be treated only with beta-glucan as compared to the original study protocol which allowed patients only to be evaluated with beta-glucan as an add-on therapy to statins. And it was also partially due to enrollment delays throughout the first six months of 2020 due to the COVID-19 pandemic. However, during the last six months of 2020, expenditures have increased and enrollment has been ramping up.

Research and development salaries expense is lower in the current year compared to the prior year primarily due to the receipt of $367,000 in grant funding in the current year compared to $154,000 funding in the prior year. For the current quarter, the Company received $95,000 to offset salaries expense compared to $74,000 in the comparative quarter. These decreases were partially offset by the addition of a new team member to the PGX group at the beginning of the year and another new team member in September 2020.

Regulatory and patents expense will vary from period to period based on the timing of filings and maintenance payments. The overall decrease in the current year is largely due to significant translation payments relating to new European patents on the Company’s Pressurized Gas eXpanded (PGX) Technology in the comparative year which were not recurring payments.

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

GENERAL AND ADMINISTRATION

	Year Ended December 31,			Quarter Ended December 31,		
$000s	2020	2019	Change	2020	2019	Change
Salaries and benefits	807	734		172	163	
Consulting	480	480		120	120	
Licensing activities	240	-		86	-	
Board of Directors compensation	202	219		44	48	
Insurance	152	137		41	36	
Accounting and audit fees	111	103		16	18	
Rent	60	62		16	15	
Public company costs	572	462		137	83	
Travel	46	94		7	18	
Depreciation and amortization	352	358		87	90	
Legal	19	39		2	3	
Other	242	264		60	80	
Total general and administration expenses	3,283	2,952	11%	788	674	17%

General and administration expense for the year ended December 31, 2020 increased by $331,000 or 11% over the prior year. The increase is primarily due to an increase in expense relating to the engagement of an international consulting company to support Ceapro’s licensing activities, an increase in salaries and benefits over the comparative quarter primarily due to existing employees increasing their time spent on general and administrative functions, and due to additional investment into investor communications and advisory services. These noted increases in public company costs during the year were offset partially because the Company incurred legal and other costs to uplist to the OTCQX in the prior year which are not repeated in the current year. The noted increases were also partially offset by lower travel expenses due to company-wide travel restrictions put into place as a result of the COVID-19 pandemic.

General and administration expense for the quarter ended December 31, 2020 increased by $114,000 or 17% from the comparative quarter. The factors that impacted the year also impacted the fourth quarter. However, the increase in expense related to salaries and benefits was not as significant in the fourth quarter as the Company’s subsidiary was eligible to receive federal wage subsidies totaling $26,292 that offset payroll expenses in the subsidiary.

SALES AND MARKETING

$000s	Year Ended December 31, 2020	2019	Change	Quarter Ended December 31, 2020	2019	Change
Sales and marketing salaries	1	180		-	58	
Courses, conferences & advertising	109	243		20	77	
Other	1	2		1	-	
Total sales and marketing	111	425	-74%	21	135	-84%

Sales and marketing expense for the year ended December 31, 2020 decreased by $314,000 or 74% from the comparative year.

For the quarter ended December 31, 2020, sales and marketing expense decreased by $114,000 or 84% from the comparative quarter.

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

Courses, conferences, and advertising expense is primarily lower in the year and quarter ended December 31, 2020, as the Company temporarily halted expenditures on some non-essential marketing and advertising activities. The expense is also partially lower as the Company travelled to a couple of conferences and tradeshows in the prior year and did not in the current year. Due to COVID 19 travel and safety restrictions, all in-person conferences and trade shows have been deferred until it is determined to be safe to attend.

FINANCE COSTS

$000s	Year Ended December 31, 2020	2019	Change	Quarter Ended December 31, 2020	2019	Change
Interest on long-term debt	1	6		(1)	(1)	
Interest on lease liabilities	152	166		37	41	
Transaction costs	1	4		-	-	
Royalties	55	55		-	-	
Accretion of CAAP loan	22	30		6	8	
	231	261	-11%	42	48	-13%

Finance costs decreased by 11% or $30,000 in the year ended December 31, 2020 from $261,000 in 2019 to $231,000.

The decrease is partially attributable to lower interest on long-debt debt and lower transactions costs as the principal balance of the long-term debt was fully repaid in July 2020. The decrease is also partially attributable to lower accretion on the CAAP loan and lower interest on the lease liabilities as the principal portions of these liabilities are also lower from ongoing repayment.

Finance costs for the quarter ended December 31, 2020 decreased by 13%, from $48,000 in 2019 to $42,000, due to the same factors that impacted the year.

OTHER (INCOME) EXPENSES

$000s	Year Ended December 31, 2020	2019	Change	Quarter Ended December 31, 2020	2019	Change
Foreign exchange (gain) loss	165	196		192	79	
Plant relocation costs	90	191		(4)	40	
Other (income) expense	4	(15)		-	1	
Quality management system	-	177		-	-	
	259	549	-53%	188	120	57%

During the year ended December 31, 2020, other expenses decreased by $290,000 or 53% from $549,000 to $259,000. This decrease was partially due to a lower foreign exchange loss during the current year compared to the prior year, due to lower expenditures relating to plant relocation costs and due to no expenditures relating to a quality management system in the current year.

During the fourth quarter ended December 31, 2020, other expenses increased by $68,000 from $120,000 in 2019 to $188,000. The increase was primarily due to a significant increase in the foreign exchange loss incurred in the quarter offset partially from a decrease in expenditures relating to plant relocation costs.

The Company's foreign exchange losses and gains are primarily due to the translation of US dollar denominated accounts receivable and accounts payable balances, and from the timing of the realization of these balances. Foreign exchange will fluctuate between the quarters due to fluctuations between the US dollar and the Canadian dollar. During the first quarter of 2020, the Canadian dollar weakened significantly which resulted in a foreign exchange gain in that quarter, but during the rest of the year, the US dollar has weakened which has resulted in a reversal of the foreign exchange gain experienced in the first quarter, and by December 31, 2020, the Company experienced an overall foreign exchange loss for the year that was slightly lower than the loss incurred in the prior year. The US dollar weakened significantly in the fourth quarter resulting in a large foreign exchange loss compared to the fourth quarter of 2019.

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

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

DEPRECIATION AND AMORTIZATION EXPENSE

In the year ended December 31, 2020, the total depreciation and amortization expense was $1,841,000 which was consistent with the expense of $1,832,000 in the comparative year in 2019. The expense was allocated as follows: $352,000 to general and administration expense (2019 - $356,000), $126,000 to inventory (2019 - $9,000), and $1,363,000 (2019 - $1,467,000) to cost of goods sold.

SEGMENTED FINANCIAL PERFORMANCE

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

Juvente is in the start-up phase, so the segment does not contribute significantly to revenue generation at this time. The segment's expenses during the current and comparative periods primarily relate to general and administrative costs and marketing costs. General and administrative expenses in Juvente between the current and comparative year were approximately $57,000 lower, and between the current and comparative quarter were approximately $41,000 lower and a large portion of these differences was due to Juvente being eligible to receive federal wage subsidies totaling $26,292 that offset payroll expenses in the fourth quarter of 2020. Sales and marketing expense is approximately $118,000 lower than the comparative fourth quarter and is approximately $268,000 lower in the current year compared with the prior year. These decreases are primarily related to marketing and sales salaries and lower advertising expenditures which are more fully discussed in the sales and marketing section.

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

Quarterly Information

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

$000s except per share data	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues	2,706	3,476	4,666	4,273	3,721	2,908	3,054	3,197
Net income (loss)	(539)	192	1,077	1,126	166	(104)	(559)	(637)
Basic net income (loss) per common share	(0.007)	0.002	0.014	0.015	0.002	(0.001)	(0.007)	(0.008)
Diluted net income (loss) per common share	(0.007)	0.002	0.014	0.014	0.002	(0.001)	(0.007)	(0.008)

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

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

Significant New Accounting Standards

There were no new standards that became effective for periods beginning on or after January 1, 2020 that have a material impact on the Company's audited consolidated financial statements for the quarter or year ending December 31, 2020.

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

Liquidity and Capital Resources

CAPITAL EMPLOYED

$000s	December 31, 2020	December 31, 2019
Non-current assets	20,174	20,858
Current assets	9,050	6,411
Current liabilities	(1,391)	(1,741)
Total assets less current liabilities	27,833	25,528
Non-current liabilities	3,523	3,216
Shareholders' equity	24,310	22,312
Total capital employed	27,833	25,528

Non-current assets decreased by $684,000 primarily due to a depreciation provision of $1,838,000, an amortization provision on licences of $3,000 and the utilization of deposits of $4,000, offset by an increase in the recognition of deferred tax assets of $496,000 and the net acquisition of $665,000 of property and equipment including an IFRS 16 lease adjustment.

Current assets increased by $2,639,000 primarily due to an increase in cash from operations of $3,512,000, an increase in inventories of $541,000, and an increase in prepaid expenses and deposits of $170,000 primarily from significant deposits on the purchase of oats and property and equipment, offset by a net decrease in trade and other receivables in the amount of $1,584,000.

Current liabilities totaling $1,391,000 decreased by the net amount of $350,000 primarily due to a decrease in accounts payable and accrued liabilities of $224,000, a decrease in the current portion of long-term debt of $112,000 as the loan was fully repaid, a decrease in the current portion of lease liabilities of $14,000, and a decrease in the current portion of CAAP loan of $1,000.

Non-current liabilities totaling $3,523,000 increased by the net amount of $307,000 primarily due to the recognition of deferred tax liabilities of $496,000 offset by the repayment of lease liabilities and reallocation of current portion of the lease liabilities net of an adjustment from the modification of a lease of $127,000, and due to repayment of the CAAP loan net of accretion of $62,000.

Equity of $24,310,000 at December 31, 2020 increased by $1,998,000 from equity of $22,312,000 at December 31, 2019, primarily due to the recognition of net income of $1,856,000 for year ended December 31, 2020, the recognition of share-based payment compensation of $137,000, and due to the issuance of shares from the exercise of stock options of $5,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the years ended December 31, 2020 and 2019.

$000s	Year Ended December 31, 2020	2019	Quarter Ended December 31, 2020	2019
Sources of funds:				
Funds generated from operations adjusted for non-cash items	4,010	1,113	-	699
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	135	-	120	-
Deposits relating to investing activities	-	188	-	-
Share issuance	5	17	2	-
Changes in non-cash working capital items relating to operating activities	596	-	-	-
	4,746	1,318	122	699
Uses of funds:				
Funds used in operations adjusted for non-cash items	-	-	(24)	-
Purchase of property and equipment	(528)	(332)	(306)	7
Purchase of leasehold improvements	(13)	(6)	(13)	(6)
Deposits relating to investing activities	(77)	-	(77)	-
Changes in non-cash working capital items relating to operating activities	-	(60)	(263)	(1,100)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	-	(47)	-	(102)
Interest paid	(154)	(171)	(37)	(39)
Repayment of long-term debt and CAAP loan	(197)	(423)	(84)	(134)
Repayment of lease liabilities	(265)	(266)	(67)	(64)
	(1,234)	(1,305)	(871)	(1,438)
Net change in cash flows	3,512	13	(749)	(739)

Net change in cash flow was an increase of $3,512,000 during the year ended December 31, 2020 in comparison with an increase of $13,000 for the comparative year. A significant reason for the difference relates to cash generated from operations of $4,606,000 (after adjustment for non-cash items and working capital items) in the current year compared to $1,053,000 of cash generated from operations in the comparative year. The other significant reason for the improvement in cash flow is that long-term debt and CAAP loan repayment in the current year was only $197,000 compared to $423,000 in the comparative year as the Company fully repaid certain loans in the prior year and then completed repayment on the last long-term debt loan in July 2020. These increases were offset slightly by an increase in the purchase of property and equipment in the current year over the prior year, primarily relating to equipment purchases and improvements at the Edmonton production site during the fourth quarter of 2020.

The Company has a positive working capital balance (defined as current assets less current liabilities) of $7,659,357 at December 31, 2020. The Company estimates that the cash flows generated by its existing operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, maintain capital investment, and service debt needs. However, the Company has several ongoing research and development projects, planned upcoming clinical trials, and planned installation of a new ethanol recovery system, and management will have to prioritize expenditures on those projects that are in line with our stated objectives to develop new product applications and expand to the nutraceutical sector which we consider will provide the most beneficial outcome and value to our shareholders.

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

Total common shares issued and outstanding as at April 20, 2021 were 77,672,843 (April 14, 2020 – 77,608,341). In addition, 2,991,999 stock options as at April 20, 2021 (April 14, 2020 – 3,189,501 stock options) 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, 2019, the Company entered into a contribution agreement with the National Research Council of Canada's Industrial Research Assistance Program (NRC -IRAP) for non-repayable funding of up to a maximum $268,000 for costs incurred on the continued development of the Company's PGX Technology for the generation of biopolymers or drug delivery systems for deployment into the functional food, cosmetic, and drug delivery markets. During the year ended December 31, 2019, the Company received or recorded as a receivable $153,936 which was recorded as a reduction of research and development expenses. As at December 31, 2019, NRC – IRAP and the Company agreed to amend the contribution agreement to decommit $25,000 of the non-repayable funding. The agreement has been amended twice in 2020. During the first quarter of 2020, NRC–IRAP and the Company agreed to amend the contribution agreement to increase funding by $107,000 for the period April 1, 2020 – March 31, 2022 and in October 2020, the contribution agreement was amended again to increase funding by $240,000 for the period April 1, 2020 - March 31, 2022. During the year ended December 31, 2020, the Company received or recorded as a receivable $367,542 which has been recorded as a reduction of research and development expenses. The Company anticipates receiving an additional $68,522 during fiscal 2021.

Related Party Transactions

During the year ended December 31, 2020, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $1,014,000 (2019 – $973,000) and share-based payments expense for key management personnel was $88,000 (2019 - $123,000).

The amount payable to directors at December 31, 2020 was $40,000 (2019 - $40,000). Consulting fees and key management salaries to officers and key management included in accounts payable and accrued liabilities at December 31, 2020 was $22,000 (2019 - $Nil).

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

Commitments and Contingencies

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

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

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

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

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

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

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

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

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

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

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

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

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

Outlook

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

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

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

Additional Information

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