Unaudited Condensed Consolidated Financial Statements for the First Quarter Ended March 31, 2016

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

	March 31, 2016	December 31, 2015
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	1,999,194	1,681,125
Trade receivables	144,898	538,995
Other receivables	58,547	124,132
Inventories (note 4)	1,140,316	1,242,417
Prepaid expenses and deposits	141,148	259,560
	3,484,103	3,846,229
Non-Current Assets		
Investment tax credits receivable	348,854	603,302
Deposits	93,264	93,264
Licenses (note 5)	32,589	33,329
Property and equipment (note 6)	11,378,419	9,868,676
Deferred tax assets	1,258,674	1,258,674
	13,111,800	11,857,245
TOTAL ASSETS	16,595,903	15,703,474
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	1,900,633	2,005,611
Deferred revenue (note 9)	844,640	1,172,198
Current portion of long-term debt (note 7)	987,989	984,318
Convertible debentures (note 8)	893,056	872,355
Current portion of CAAP loan (note 11)	75,677	72,942
Income tax payable	298,738	95,180
	5,000,733	5,202,604
Non-Current Liabilities		
Long-term debt (note 7)	2,020,375	2,277,186
CAAP loan (note 11)	244,507	235,529
Deferred tax liabilities	174,199	111,621
	2,439,081	2,624,336
TOTAL LIABILITIES	7,439,814	7,826,940
Equity		
Share capital (note 10)	6,824,626	6,800,018
Equity component of convertible debentures (note 8)	106,200	106,200
Contributed surplus	1,071,119	1,029,564
Retained earnings (deficit)	1,154,144	(59,248)
	9,156,089	7,876,534
TOTAL LIABILITIES AND EQUITY	16,595,903	15,703,474

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

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

Three Months Ended March 31,	2016 $	2015 $
Revenue (note 15)	4,063,576	1,714,485
Cost of goods sold	1,229,763	922,386
Gross margin	2,833,813	792,099
Research and product development	327,832	105,907
General and administration	495,646	801,933
Sales and marketing	2,186	3,167
Finance costs (note 14)	98,481	106,750
Income (loss) from operations	1,909,668	(225,658)
Other operating loss (note 13)	(175,692)	(4,430)
Income (loss) before tax	1,733,976	(230,088)
Income taxes		
Current tax expense	(458,006)	-
Deferred tax (expense) recovery	(62,578)	36,250
Income tax (expense) recovery	(520,584)	36,250
Total comprehensive income (loss) for the period	1,213,392	(193,838)
Net income (loss) per common share (note 20):		
Basic	0.02	(0.00)
Diluted	0.02	(0.00)
Weighted average number of common shares outstanding (note 20):		
Basic	62,583,239	61,543,874
Diluted	65,676,833	61,543,874

See accompanying notes

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

	Share capital $	Contributed surplus $	Equity component of convertible debentures $	Retained earnings (Deficit) $	Accumulated other comprehensive loss $	Total Equity $
Balance December 31, 2015	6,800,018	1,029,564	106,200	(59,248)	-	7,876,534
Share-based payments	-	51,663	-	-	-	51,663
Stock options exercised	24,608	(10,108)	-	-	-	14,500
Net income for the period	-	-	-	1,213,392	-	1,213,392
Balance March 31, 2016	6,824,626	1,071,119	106,200	1,154,144	-	9,156,089
Balance December 31, 2014	6,565,927	507,505	-	(4,964,483)	(16,916)	2,092,033
Share-based payments	-	287,749	-	-	-	287,749
Stock options exercised	34,348	(12,515)	-	-	-	21,833
Convertible debentures, net of tax of $36,250 (note 8)	-	-	106,200	-	-	106,200
Future benefit obligation	-	-	-	(16,916)	16,916	-
Net loss for the period	-	-	-	(193,838)	-	(193,838)
Balance March 31, 2015	6,600,275	782,739	106,200	(5,175,237)	-	2,313,977

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

Three Months Ended March 31,	2016 $	2015 $
OPERATING ACTIVITIES		
Net income (loss) for the period	1,213,392	(193,838)
Adjustments for items not involving cash		
Finance costs	11,556	25,005
Transaction costs	6,372	5,521
Depreciation and amortization	93,765	99,566
Unrealized foreign exchange gain on long-term debt	(15,171)	(31,926)
Accretion	30,553	26,224
Deferred tax expense (recovery)	62,578	(36,250)
Share-based payments	51,663	287,749
Net income for the period adjusted for non-cash items	1,454,708	182,051
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	394,097	4,657
Other receivables	65,585	143,278
Investment tax credits receivable	254,448	-
Inventories	102,101	(192,057)
Prepaid expenses and deposits	118,412	(47,767)
Deferred revenue	(327,558)	326,685
Income tax payable	203,558	-
Accounts payable and accrued liabilities relating to operating activities	63,600	(543,092)
Total changes in non-cash working capital items	874,243	(308,296)
Net income (loss) for the period adjusted for non-cash and working capital items	2,328,951	(126,245)
Interest paid	(56,234)	(46,515)
CASH GENERATED FROM (USED IN) OPERATIONS	2,272,717	(172,760)
INVESTING ACTIVITIES		
Purchase of property and equipment	(476,081)	(193,105)
Purchase of leasehold improvements	(1,082,009)	(263,147)
Accounts payable and accrued liabilities relating to investing activities	(168,578)	(71,164)
CASH USED BY INVESTING ACTIVITIES	(1,726,668)	(527,416)
FINANCING ACTIVITIES		
Long-term debt	-	290,000
Convertible debentures	-	960,000
Employee future benefits obligation repayment	-	(127,009)
Stock options exercised	14,500	21,833
Transaction costs	-	(25,665)
Repayment of long-term debt	(242,480)	(189,984)
Grant used for purchasing of leaseholds, property and equipment	-	79,655
Repayment of royalty financial liability	-	(43,075)
CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	(227,980)	965,755
Increase in cash and cash equivalents	318,069	265,579
Cash and cash equivalents at beginning of the period	1,681,125	272,845
Cash and cash equivalents at end of the period	1,999,194	538,424

See accompanying notes

Cash and cash equivalents are comprised of $1,692,356 (2015 - $531,633) on deposit with financial institutions, $300,000 (2015 - $NIL) restricted cash on deposit with financial institutions (see note 9), and $6,838 (2015 - $6,791) held in money market mutual funds.

1. NATURE OF BUSINESS OPERATIONS AND GOING CONCERN

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

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

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge liabilities in the normal course of operations. However, certain conditions may cast doubt upon the validity of this assumption. The Company is currently in progress to complete a new manufacturing facility which involves substantial capital expenditures for engineering and design, permitting, construction of leaseholds, specialized equipment, as well as other related costs required to meet the strict requirements of major customers. The overall planned investment for the first phase of the facility is currently estimated at $13,800,000, of which the Company has completed and recorded approximately $12,300,000 at March 31, 2016. As a result of the increased scope of the project the Company had a working capital deficiency of $1,516,630 at March 31, 2016 and may require additional financing to complete the first phase of the manufacturing facility.

When a new manufacturing facility is brought into commercial production, there is always a risk as to the magnitude of investment of human and financial resources required for start-up and commissioning activities. While the Company fully utilizes its expertise and engages qualified third parties to complete these activities and minimize risks, there is still some risk inherent in these activities. Additional funds will be required to complete these essential activities. The planned investment total has always been presented exclusive of government programs committed or received representing over $2,000,000 to date which have reduced actual cash outlays significantly. During the three months ended March 31, 2016, the Company has continued to finance the new manufacturing facility by reinvesting operating profits. The Company currently estimates that it will need to generate an additional $2,400,000 from ongoing operations and/or other sources to complete the first phase of the new facility.

The Company's ability to continue as a going concern is dependent on obtaining additional financial capital and maintaining profitability and positive cash flow. Management is continuing to pursue additional funding from potential strategic alliances with partners, government programs, and other sources to fully fund its anticipated needs. There can be no assurance that the Company will be able to access capital when needed. These consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets and liabilities, revenues and expenses, and the balance sheet classification used if the Company were unable to continue operations. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of consolidated financial statements, including IFRS 34, ñInterim Financial Reportingò. The accounting principles and methods of computation adopted in these financial statements are the same as those of the annual financial statements for the year ended December 31, 2015.

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements. The financial statements and notes presented should be read in conjunction with the annual financial statements for the year ended December 31, 2015.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on May 17, 2016.

b) Basis for presentation

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., and Ceapro USA Inc.

All intercompany accounts and transactions have been eliminated on consolidation.

3. CHANGES IN ACCOUNTING POLICIES

Future accounting policies not yet adopted

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

Management anticipates that all relevant pronouncements will be adopted in the Companyôs 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 Companyôs consolidated financial statements.

IFRS 9 ñFinancial instrumentsò

In July 2014, the IASB released the final version of IFRS 9 ñFinancial instrumentsò, representing the completion of its project to replace IAS 39 ñFinancial Instruments: Recognition and Measurementò. The new standard introduces extensive changes to IAS 39ôs guidance on the classification and measurement of financial assets and introduces a new ñexpected credit lossò 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 Companyôs management has not yet assessed the impact of IFRS 9 on these consolidated financial statements.

<u>IFRS 15 ñRevenue from Contracts with Customersò</u>

In May 2014, the IASB released IFRS 15 ñRevenue from Contracts with Customersò which presents new requirements for the recognition of revenue, replacing IAS 18 ñRevenueò, IAS 11 ñConstruction contractsò, 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 Companyôs management has not yet assessed the impact of IFRS 15 on these consolidated financial statements.

<u>IFRS 16 ñLeasesò</u>

In January 2016, the IASB released IFRS 16 ñLeasesò replacing IAS 17 ñLeasesò 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 Companyôs management has not yet assessed the impact of IFRS 16 on these consolidated financial statements.

4. INVENTORIES

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

	March 31, 2016 $	December 31, 2015 $
Raw materials	321,555	223,261
Work in progress	245,032	376,938
Finished goods	573,729	642,218
	1,140,316	1,242,417

Inventories expensed to cost of goods sold during the three month period ended March 31, 2016 are $1,211,084 (March 31, 2015 - $903,933).

5. LICENCES

During the year ended December 31, 2014, and as amended on February 2, 2015, the Company entered into a licence agreement with the University of Alberta for the rights to a technology that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients for all industrial applications. The agreement expires after a term of 20 years or after the expiration of the last patent obtained whichever event shall occur first. There is no initial licence fee but the Company is required to make royalty payments (see note 17 (d)).

During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and commenced amortizing the licence over 15 years, in April 2012. Amortization of $740 has been included in general and administration for the period ended March 31, 2016 (March 31, 2015 - $741) (see note 17 (c)).

Cost of licences	$
Balance - December 31, 2015	44,439
Additions	-
Balance - March 31, 2016	44,439
Accumulated amortization	
Balance - December 31, 2015	11,110
Amortization	740
Balance - March 31, 2016	11,850
Net book value	
Balance - March 31, 2016	32,589
Balance - December 31, 2015	33,329

6. PROPERTY AND EQUIPMENT

	Equipment not available for use	Manufacturing Equipment	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Cost	$	$	$	$	$	$
December 31, 2015	3,237,230	3,729,253	305,446	401,396	5,328,120	13,001,445
Additions	361,491	133,398	-	3,531	1,104,348	1,602,768
Cost reduced by grant	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
March 31, 2016	3,598,721	3,862,651	305,446	404,927	6,432,468	14,604,213
Accumulated Depreciation						
December 31, 2015	-	2,512,970	119,826	301,357	198,616	3,132,769
Additions	-	61,146	9,244	7,306	15,329	93,025
Disposal	-	-	-	-	-	-
March 31, 2016	-	2,574,116	129,070	308,663	213,945	3,225,794
Carrying Value						
March 31, 2016	3,598,721	1,288,535	176,376	96,264	6,218,523	11,378,419
December 31, 2015	3,237,230	1,216,283	185,620	100,039	5,129,504	9,868,676

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold	Inventory	General and administration	Total
	$	$	$	$
Three Months Ended March 31, 2016	12,831	42,686	37,508	93,025
Three Months Ended March 31, 2015	19,559	36,437	42,829	98,825

The carrying value of the leasehold improvements and equipment not available for use represent the accumulated expenditures incurred on the construction of the new manufacturing facility, net of government funding received and amortization taken on leasehold improvements to date.

Amortization of leasehold improvements for certain sections of the new manufacturing facility has commenced as these sections were completed and the Company moved partial operations to the new facility. The production section is not being amortized as the facility is not yet available for use and has not yet commenced manufacturing operations.

Included in the additions for equipment not available for use are capitalized borrowing costs of $22,339 and capitalized employee salaries and benefits of $84,214 arising directly from the construction of the new manufacturing equipment and production process. Included in leasehold improvement additions are capitalized borrowing costs of $22,339 and capitalized employee salaries and benefits of $7,900 arising directly from the construction of the new manufacturing facility. The borrowing costs have been capitalized at the rates of the specific borrowings ranging between 2.85% and 8%.

7. LONG-TERM DEBT

	March 31, 2016 $	December 31, 2015 $
Loan payable secured by a general security agreement, due January, 2018 (a).	354,341	400,847
Loan payable secured by certain intellectual property, due January, 2019 (b).	862,977	951,921
Loan payable secured by a general security agreement, due April, 2019 (c).	1,024,445	1,101,982
Loan payable secured by a forklift, due June, 2018 (d).	28,617	31,681
Loan payable secured by a general security agreement, due July, 2020 (e).	789,947	831,547
Transaction costs	(51,963)	(56,474)
	3,008,364	3,261,504
Less current portion	987,989	984,318
	2,020,375	2,277,186

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

Period Ended March 31, 2016	11,556
Period Ended March 31, 2015	11,227

(a) During the year ended December 31, 2012, the loan from Agriculture Financial Services Corporation (ñAFSCò) was renewed to January 1, 2018 at an interest rate of 3.71% with monthly blended principal and interest payments of $16,674 starting February 1, 2013. The loan is secured by a general security agreement covering all present and after acquired personal property subject to a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 7 (b).

(b) During the year ended December 31, 2013, the Company entered into a loan agreement with its distribution partner, Symrise, which is secured by certain intellectual property and is due January 2, 2019. The loan, for 1 million Euro, is repayable over 5 years at an interest rate of 2.85%. At March 31, 2016, the loan balance was 584,079 (December 31, 2015 ï 633,390) Euro.

Monthly blended principal and interest payments in the amount of 17,902 Euro commenced February 1, 2014. Based on the exchange rate at March 31, 2016, the monthly payment is $26,450 (December 31, 2015 - $26,905) in Canadian dollars.

(c) During the year ended December 31, 2013, the Company entered into a loan agreement with AFSC which is due April 1, 2019. The loan can be drawn to maximum $1,600,000 Canadian dollars, is repayable over a 5-year term and has an interest rate of 3.91%. Monthly blended principal and interest payments in the amount of $29,352 commenced on May 1, 2014. The loan is secured by a general security agreement covering all present and after acquired personal property subject to a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 7(b).

(d) During the year ended December 31, 2014, the Company entered into a loan agreement to purchase a forklift. The loan is repayable over a four-year term and requires monthly blended principal and interest payments of $1,167 and has an interest rate of 6.15%. The loan is secured by the forklift with a carrying value of $50,031 (2015 - $50,031) and is due June 1, 2018.

(e) During the year ended December 31, 2015, the Company entered into a loan agreement with AFSC which is due July 1, 2020. The loan can be drawn to maximum $900,000 Canadian dollars, is repayable over a 5-year term and has an interest rate of 3.84%. Monthly blended principal and interest payments in the amount of $16,483 commenced on August 1, 2015. The loan is secured by a general security agreement covering all present and after acquired personal property subject to a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 7(b).

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

8. CONVERTIBLE DEBENTURES

During the year ended December 31, 2015, the Company issued an aggregate of $960,000 of unsecured convertible debentures that mature on December 31, 2016.

The debentures bear interest at 8% per annum with interest payable on June 30 and December 31 of each year. Pursuant to the terms of the debentures, the Company will have the option to satisfy interest payments through the issuance of common shares based on the volume weighted average trading price of the common shares for the 20 trading days upon which the common shares traded on the TSX-V immediately prior to the interest obligation date.

The debentures are convertible into common shares of the Company at any time at a price of $0.64 per common share at the option of the holder and may be redeemed at the option of the Company upon giving notice of 60 days. The debentures and any common shares issued upon conversion of the convertible debentures are subject to a four-month hold period from the date of issue.

The convertible debentures have been separated into liability and equity components using the residual method. The fair value of the liability component at the time of issue was calculated using discounted cash flows for the convertible debenture assuming an effective interest rate of 17%. The effective interest rate was based on the estimated rate for a debenture with similar terms but without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible debentures and the fair value of the liability component. The liability component is subsequently measured at amortized cost using the effective interest rate method and will accrete up to the principal balance at maturity. The accretion is presented as a finance cost. Interest expense is capitalized as a borrowing cost until the new manufacturing facility is completed, thereafter, interest will be presented as a finance cost.

Transaction costs of $17,091 were incurred on the issuance of the convertible debentures and have been netted against the liability and equity components based on the proportionate values of the liability and equity components. The transaction costs allocated to the liability component are amortized at the effective interest rate over the term of the convertible debentures and are presented as a finance cost.

The following table summarizes the accounting for the convertible debentures:

	Liability Component $	Equity Component $
December 31, 2014	-	-
Fair value of components at date of issue	815,000	145,000
Deferred income tax liability	-	(36,250)
Transaction costs	(14,541)	(2,550)
Amortization of transaction costs	7,055	-
Accretion of discount on the convertible debentures	64,841	-
December 31, 2015	872,355	106,200
Amortization of transaction costs	1,861	-
Accretion of discount on the convertible debentures	18,840	-
March 31, 2016	893,056	106,200

9. DEFERRED REVENUE

As at December 31, 2015, the Company held $300,000 received from Alberta Innovates Bio Solutions (AI-Bio Solutions) under non-repayable grant agreements to fund research projects. During the three months ended March 31, 2016, the Company has not expended the restricted cash. The balance of the grants received of $300,000 at December 31, 2015 are restricted for eligible project expenditures which have not yet been incurred so they have been presented as deferred revenue.

Deferred revenue also consists of $544,640 (December 31, 2015 - $872,198) for prepaid sales orders from customers.

10. SHARE CAPITAL

a. Authorized

   i. Unlimited number of Class A voting common shares. Class A common shares have no par value.

   ii. Unlimited number of Class B non-voting common shares. There are no issued Class B shares.

b. Issued - Class A common shares

	Three Months Ended March 31, 2016		Year Ended December 31, 2015	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance at beginning of the period	62,490,821	6,800,018	61,423,948	6,565,927
Stock options exercised	145,000	24,608	793,333	143,823
Shares issued for settlement of debt	-	-	273,540	90,268
Balance at end of the period	62,635,821	6,824,626	62,490,821	6,800,018

c. Stock options and share-based payments

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

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the three months ended March 31, 2016, the Company granted 160,000 (March 31, 2015 ï 1,040,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock, life of the options, and forfeiture rate. The weighted average risk-free rate used in 2016 was 0.84% (2015 ï 1.74%), the weighted average expected volatility was 105% (2015 - 117%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years (2015 ï 10 years), forfeiture rate was 0% (2015 - 0%), the weighted average share price was $0.42 (2015 ï $0.63), the weighted average exercise price was $0.42 (2015 ï $0.63), and the expected dividends were nil (2015 - nil). The weighted average grant date fair value of options granted in the three months ended March 31, 2016 was $0.28 (2015 - $0.59) per option.

The share-based payments expense recorded during the current period relates to options granted in 2016, 2015, and 2014 was $51,663 (during 2015 relating to options granted in 2015, 2014, and 2013 - $287,749).

A summary of the status of the Company's stock options at December 31, 2015 and 2014 and changes during the years ended on those dates is as follows:

	Three Months Ended March 31, 2016		Year Ended December 31, 2015	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the	3,446,667	0.28	3,120,000	0.12
Granted	160,000	0.42	1,210,000	0.59
Exercised	(145,000)	0.10	(793,333)	0.11
Forfeited	(60,000)	0.39	(90,000)	0.34
Outstanding at end of period	3,401,667	0.29	3,446,667	0.28
Exercisable at end of period	2,746,665	0.25	2,263,332	0.20

d. Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	March 31, 2016 Number of Options	December 31, 2015 Number of Options
0.25	0.27	2025	9.3	10,000	10,000
0.25	0.27	2025	9.3	10,000	10,000
0.34	0.36	2025	9.1	150,000	150,000
0.47	0.50	2025	8.8	100,000	100,000
0.60	0.64	2025	8.8	900,000	900,000
0.37	0.27	2024	8.6	150,000	150,000
0.13	0.14	2024	8.2	250,000	250,000
0.08	0.10	2024	7.8	705,000	780,000
0.05	0.10	2023	6.8	716,667	786,667
0.09	0.10	2022	6.3	160,000	160,000
0.22	0.44	2018	1.9	100,000	-
0.11	0.15	2016	0.2	150,000	150,000
			7.4	3,401,667	3,446,667

11. CAAP LOAN

The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily decommitted $668,557 as a result of lower anticipated project expenditures resulting in amended maximum possible funding under the agreement of $671,068. The end date for project expenditures and start date for repayments were also extended one year to September 30, 2013 and December 31, 2014 respectively. All amounts claimed under the program are repayable interest free over eight years beginning in 2014.

As the contributions are non-interest bearing, the fair value at inception is estimated as the present value of the principal payments required, discounted using the prevailing market rates of interest for a similar instrument which was estimated to be 15% per annum. The difference between the fair value of the contributions and the cash received is accounted for as a government grant.

The balance of repayable contribution is derived as follows:

	Three Months Ended March 31, 2016 $	Year Ended December 31, 2015 $
Opening balance	308,471	338,017
Repayment	-	(83,884)
Accretion of CAAP loan	11,713	54,338
	320,184	308,471
Less current portion	75,677	72,942
	244,507	235,529

The principal repayment required for amounts received or receivable from inception to December 31, 2013 is $83,883 annually from 2014 through 2021.

12. RELATED PARTY TRANSACTIONS

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

Three Months Ended March 31,	2016 $	2015 $
Convertible debentures held by a company controlled by an officer and by a close family member of a director	75,000	75,000
Interest earned on convertible debentures held by a company controlled by an officer and by a close family member of a director	1,492	921
Key management salaries, short-term benefits, consulting fees, and director fees	141,902	127,114
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	21,000	-
Key management personnel share-based payments	23,488	150,740
Amount payable to directors	40,540	36,250

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.

13. OTHER OPERATING LOSS

Three Months Ended March 31,	2016 $	2015 $
Foreign exchange loss (income)	37,844	(76,442)
Other expense (income)	861	(9,860)
Plant relocation costs	136,987	90,732
	175,692	4,430

14. FINANCE COSTS

Three Months Ended March 31,	2016 $	2015 $
Interest on long-term debt	11,556	11,227
Interest on convertible debentures	-	13,778
Transaction costs	6,372	5,521
Royalties	50,000	50,000
Accretion of CAAP loan	11,713	12,835
Accretion of convertible debentures	18,840	13,389
	98,481	106,750

15. SEGMENTED INFORMATION

The Company operates in one industry segment, which is the active ingredient product technology industry. The majority of the revenue is derived from sales in North America. All the assets of the Company, which support the revenues of the Company, are located in Canada. The distribution of revenue by location of customer is as follows:

Three Months Ended March 31,	2016 $	2015 $
United States	2,198,382	1,281,148
Germany	1,718,010	408,087
China	88,953	-
Other	45,574	23,943
Canada	12,657	1,307
	4,063,576	1,714,485

16. EMPLOYEE BENEFITS

Three Months Ended March 31,	2016 $	2015 $
Employee benefits	637,903	870,086

Employee benefits include wages, salaries, bonus, and CPP, EI, WCB contributions, and benefit premiums.

17. CONTINGENCIES AND COMMITMENTS

a) During the year ended December 31, 2011, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of $724,500 pursuant to a product development agreement. The Company and Ceapro Veterinary Products Inc. filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and have been submitted to the presiding judge. The Company believes it has presented strong defenses to the allegations at trial and no provision has made in the consolidated financial statements for this litigation.

b) During the year ended December 31, 2012, the Company and its wholly-owned subsidiary, Ceapro Technology Inc. were served with a statement of claim from AVAC Ltd. alleging damages of $1,470,000 pursuant to two product development agreements. The Company and Ceapro Technology Inc. filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and have been submitted to the presiding judge. The Company believes it has presented strong defenses to the allegations at trial and no provision has been made in the consolidated financial statements for this litigation.

c) During the year ended December 31, 2012, the Company entered into a new 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 new 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.

18. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

The fair value of the convertible debentures are estimated to approximate the carrying value as they have been based on discounted cash flows based on interest rates for similar instruments (level 2).

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

	March 31, 2016		December 31, 2015	
	Book value	Fair value	Book value	Fair value
Loans and receivables:				
Cash and cash equivalents	$ 1,999,194	$ 1,999,194	$ 1,681,125	$ 1,681,125
Trade and other receivables	203,445	203,445	663,127	663,127
Other financial liabilities:				
Accounts payable and accrued liabilities	$ 1,900,633	$ 1,900,633	$ 2,005,611	$ 2,005,611
Long-term debt	3,008,364	3,008,364	3,261,504	3,261,504
Convertible debentures	893,056	893,056	872,355	872,355
CAAP loan	320,184	320,184	308,471	308,471

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

a) Credit risk

Trade and other receivables

The Company makes sales to customers that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 78% of trade receivables are due from two customers at March 31, 2016 (December 31, 2015 ï 93% from two customers) and all trade receivables at March 31, 2016 and December 31, 2015 are current. These main customers are considered to have good credit quality and historically have a high quality credit rating.

Other receivables represent amounts due for research program claims, government goods and services taxes, and scientific and research 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 $1,999,194 at March 31, 2016 (December 31, 2015 - $1,681,125) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

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

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	1,900,633	-	-	-	1,900,633
Long-term debt	1,086,966	1,876,194	293,084	-	3,256,244
Convertible debentures	1,036,800	-	-	-	1,036,800
CAAP loan	83,884	167,767	167,767	83,884	503,302
Total	4,108,283	2,043,961	460,851	83,884	6,696,979

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	111,709	1,117	(1,117)
Financial liabilities			
Accounts payable and accrued liabilities	170,036	(1,700)	1,700
Total increase (decrease)		(583)	583

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial liabilities			
Long-term debt	584,079	(5,841)	5,841
Total (decrease) increase		(5,841)	5,841

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at March 31, 2016.

2. Interest rate risk

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

19. CAPITAL DISCLOSURES

The Company considers its capital to be its equity. The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its manufacturing operations, research and development activities, administration and marketing expenses, working capital and overall capital expenditures, including those associated with patents and trademarks. The Company makes every effort to manage its liquidity to minimize dilution to its shareholders when possible.

The Company has funded its activities through public offerings and private placements of common shares, royalty offerings, loans, convertible debentures, and grant contributions.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the period ended March 31, 2016.

20. INCOME PER COMMON SHARE

Three Months Ended March 31,	2016	2015
Net income (loss) for the period for basic and diluted earnings per share calculation	$1,213,392	($193,838)
Weighted average number of common shares outstanding	62,583,239	61,543,874
Effect of dilutive stock options	1,593,594	-
Effect of dilutive convertible debentures	1,500,000	-
Diluted weighted average number of common shares	65,676,833	61,543,874
Income (loss) per share - basic	$0.02	($0.00)
Income (loss) per share - diluted	$0.02	($0.00)

For the three month period ended March 31, 2016, 1,215,000 outstanding stock options have not been included in the diluted income per share calculation because either the optionsô exercise price or the unvested optionsô exercise price taking into consideration remaining share-based payments were greater than the average market price of the common shares during the period.

Interest on the convertible debentures is capitalized as a borrowing cost to the new manufacturing facility under construction and therefore, the dilutive impact from the potential conversion of the convertible debentures is limited only to an increase in the diluted weighted average number of common shares outstanding.

As the Company was in a net loss position for the three month period ended March 31, 2015, the impact of the conversion of convertible securities and convertible debt is anti-dilutive.

21. SUBSEQUENT EVENTS

a) On April 6, 2016, the Company announced the signing of the renewal of a long term distribution agreement with Symrise AG, a German-based multinational.

b) On April 1, 2016, the Company completed a vertical amalgamation with its wholly-owned subsidiary Ceapro Veterinary Products Inc.