Unaudited Condensed Consolidated Financial Statements for the First Quarter Ended March 31, 2017

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, 2017	December 31, 2016
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	7,828,403	9,150,035
Trade receivables	1,111,891	566,024
Other receivables	99,501	122,411
Inventories (note 4)	1,248,641	1,183,428
Prepaid expenses and deposits	789,891	371,950
	11,078,327	11,393,848
Non-Current Assets		
Investment tax credits receivable	487,339	487,339
Deposits	90,986	90,986
Licences (note 5)	29,626	30,366
Property and equipment (note 6)	15,005,903	14,324,887
Deferred tax assets	60,608	64,208
	15,674,462	14,997,786
TOTAL ASSETS	26,752,789	26,391,634
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	1,028,957	969,234
Deferred revenue (note 8)	282,428	489,613
Current portion of long-term debt (note 7)	979,555	1,002,246
Current portion of CAAP loan (note 10)	75,677	72,942
	2,366,617	2,534,035
Non-Current Liabilities		
Long-term debt (note 7)	1,038,780	1,255,658
CAAP loan (note 10)	208,909	201,233
	1,247,689	1,456,891
TOTAL LIABILITIES	3,614,306	3,990,926
Equity		
Share capital (note 9 (b))	15,419,091	14,859,136
Contributed surplus (note 9 (f))	4,034,777	3,874,725
Retained earnings	3,684,615	3,666,847
	23,138,483	22,400,708
TOTAL LIABILITIES AND EQUITY	26,752,789	26,391,634

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 and Comprehensive Income
Unaudited

Three Months Ended March 31,	2017 $	2016 $
Revenue (note 14)	3,183,510	4,063,576
Cost of goods sold	1,472,324	1,229,763
Gross margin	1,711,186	2,833,813
Research and product development	596,024	327,832
General and administration	839,340	495,646
Sales and marketing	4,290	2,186
Finance costs (note 13)	78,465	98,481
Income from operations	193,067	1,909,668
Other operating loss (note 12)	(181,043)	(175,692)
Income before tax	12,024	1,733,976
Income taxes		
Current tax (expense) recovery	9,344	(458,006)
Deferred tax (expense) recovery	(3,600)	(62,578)
Income tax (expense) recovery	5,744	(520,584)
Total comprehensive income for the period	17,768	1,213,392
Net income per common share (note 19):		
Basic	0.00	0.02
Diluted	0.00	0.02
Weighted average number of common shares outstanding (note 19):		
Basic	75,167,058	62,583,239
Diluted	76,829,224	65,676,833

See accompanying notes

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

	Share capital $	Contributed surplus $	Equity component of convertible debentures $	Retained earnings (deficit) $	Total equity $
Balance December 31, 2016	14,859,136	3,874,725	-	3,666,847	22,400,708
Share-based payments	-	306,687	-	-	306,687
Stock options exercised	72,520	(34,200)	-	-	38,320
Warrants exercised	487,435	(112,435)	-	-	375,000
Net income for the period	-	-	-	17,768	17,768
Balance March 31, 2017	15,419,091	4,034,777	-	3,684,615	23,138,483
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

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

Three Months Ended March 31,	2017 $	2016 $
OPERATING ACTIVITIES		
Net income for the period	17,768	1,213,392
Adjustments for items not involving cash		
Finance costs	8,543	11,556
Transaction costs	4,511	6,372
Depreciation and amortization	89,214	93,765
Unrealized foreign exchange (gain) loss on long-term debt	2,579	(15,171)
Accretion	10,411	30,553
Deferred tax expense	3,600	62,578
Share-based payments	306,687	51,663
Net income for the period adjusted for non-cash items	443,313	1,454,708
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(545,867)	394,097
Other receivables	22,910	65,585
Investment tax credits receivable	-	254,448
Inventories	(65,213)	102,101
Prepaid expenses and deposits	3,276	118,412
Deferred revenue	(207,185)	(327,558)
Income tax payable	-	203,558
Accounts payable and accrued liabilities relating to operating activities	189,153	63,600
Total changes in non-cash working capital items	(602,926)	874,243
Net income for the period adjusted for non-cash and working capital items	(159,613)	2,328,951
Interest paid	(26,510)	(56,234)
CASH (USED IN) GENERATED FROM OPERATIONS	(186,123)	2,272,717
INVESTING ACTIVITIES		
Purchase of property and equipment	(608,247)	(476,081)
Purchase of leasehold improvements	(166,369)	(1,082,009)
Deposits relating to investment in equipment	(421,217)	-
Accounts payable and accrued liabilities relating to investing activities	(129,430)	(168,578)
CASH USED BY INVESTING ACTIVITIES	(1,325,263)	(1,726,668)
FINANCING ACTIVITIES		
Stock options exercised	38,320	14,500
Warrants exercised	375,000	-
Repayment of long-term debt	(246,659)	(242,480)
Grant used for purchasing of leaseholds, property and equipment	23,093	-
CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	189,754	(227,980)
(Decrease) Increase in cash and cash equivalents	(1,321,632)	318,069
Cash and cash equivalents at beginning of the period	9,150,035	1,681,125
Cash and cash equivalents at end of the period	7,828,403	1,999,194

See accompanying notes

Cash and cash equivalents are comprised of $7,539,137 (2016 - $1,692,356) on deposit with financial institutions, $282,428 (2016 - $300,000) restricted cash on deposit with financial institutions (see note 8), and $6,838 (2016 - $6,838) held in money market mutual funds.

1. NATURE OF BUSINESS OPERATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of consolidated financial statements, including IFRS 34, “Interim Financial Reporting”. The accounting principles and methods of computation adopted in these financial statements are the same as those of the annual financial statements for the year ended December 31, 2016.

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, 2016.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on May 16, 2017.

b) Basis for presentation

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., and Ceapro USA Inc. On April 1, 2016, the Company completed a vertical amalgamation with its wholly-owned subsidiary Ceapro Veterinary Products 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 Company’s consolidated financial statements is provided below.

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

IFRS 9 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 39õs 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 Companyõs management has not yet assessed the impact of IFRS 9 on these consolidated financial statements.

IFRS 15 ñRevenue from Contracts with Customersò

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 Companyõs management has not yet assessed the impact of IFRS 15 on these consolidated financial statements.

IFRS 16 ñLeasesò

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 Companyõs 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, 2017	December 31, 2016
	$	$
Raw materials	442,721	337,491
Work in progress	474,452	269,077
Finished goods	331,468	576,860
	1,248,641	1,183,428

Inventories expensed to cost of goods sold during the three month period ended March 31, 2017 are $1,444,602 (March 31, 2016 - $1,211,084).

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 16 (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, 2017 (March 31, 2016 - $740) (see note 16 (c)).

Cost of licences	$
Balance - December 31, 2016	44,439
Additions	-
Balance - March 31, 2017	44,439
Accumulated amortization	
Balance - December 31, 2016	14,073
Amortization	740
Balance - March 31, 2017	14,813
Net book value	
Balance - March 31, 2017	29,626
Balance - December 31, 2016	30,366

6. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
December 31, 2016	5,151,819	4,130,165	307,326	417,765	7,807,070	17,814,145
Additions	567,068	57,733	-	1,413	166,369	792,583
Cost reduced by grant	-	(23,093)	-	-	-	(23,093)
Disposal	-	-	-	-	-	-
March 31, 2017	5,718,887	4,164,805	307,326	419,178	7,973,439	18,583,635
Accumulated Depreciation						
December 31, 2016	-	2,755,104	157,178	333,122	243,854	3,489,258
Additions	-	59,933	7,470	6,386	14,685	88,474
Disposal	-	-	-	-	-	-
March 31, 2017	-	2,815,037	164,648	339,508	258,539	3,577,732
Carrying Value						
March 31, 2017	5,718,887	1,349,768	142,678	79,670	7,714,900	15,005,903
December 31, 2016	5,151,819	1,375,061	150,148	84,643	7,563,216	14,324,887

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Three Months Ended March 31, 2017	28,405	24,148	35,921	88,474
Three Months Ended March 31, 2016	12,831	42,686	37,508	93,025

The carrying value of the leasehold improvements and equipment not available for use represent the accumulated expenditures incurred on the construction of a new manufacturing facility, net of government funding received and amortization taken to date on leasehold improvements of $628,471 currently in use. At March 31, 2017, construction of the extraction/fractionation area of the facility is complete. Amortization of this area has not commenced since it is still in the commissioning and validation phase.

Included in the additions for equipment not available for use are capitalized borrowing costs of $17,967 and capitalized employee salaries and benefits of $90,806 arising directly from the installation and related construction of the new manufacturing equipment and production process. The borrowing costs have been capitalized at the rates of the specific borrowings ranging between 2.85% and 3.91%.

Included in prepaid expenses and deposits are advance payments of $635,143 on the purchase of an ethanol recovery system. The purchase of this specialized equipment will be completed in 2017 for additional payments of $589,985USD. Based on the exchange rate at March 31, 2017, the estimated remaining payments will be approximately $786,000 in Canadian dollars.

7. LONG-TERM DEBT

	March 31, 2017 $	December 31, 2016 $
Loan payable secured by a general security agreement, due January, 2018 (a).	164,023	212,254
Loan payable secured by certain intellectual property, due January, 2019 (b).	546,228	614,970
Loan payable secured by a general security agreement, due April, 2019 (c).	706,619	787,242
Loan payable secured by a forklift, due June, 2018 (d).	15,881	19,139
Loan payable secured by a general security agreement, due July, 2020 (e).	619,503	662,729
Transaction costs	(33,919)	(38,430)
	2,018,335	2,257,904
Less current portion	979,555	1,002,246
	1,038,780	1,255,658

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

Period Ended March 31, 2017	8,543
Period Ended March 31, 2016	11,556

(a) During the year ended December 31, 2012, a 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, 2017, the loan balance was 383,291 (December 31, 2016 ï 434,025) 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, 2017, the monthly payment is $25,512 (December 31, 2016 - $25,365) 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. DEFERRED REVENUE

During the year ended December 31, 2015, the Company received $300,000 from Alberta Innovates Bio Solutions (AI-Bio Solutions) under non-repayable grant agreements to fund a research project. During the year ended December 31, 2016, the Company expended $17,572 of the restricted cash on equipment. The balance of the grants received of $282,428 at March 31, 2017 ($282,428 at December 31, 2016) are restricted for eligible project expenditures which have not yet been incurred; therefore, they are presented as deferred revenue.

During the year ended December 31, 2016, the Company received $50,000 from the German-Canadian Centre for Innovation and Research under a contribution agreement to fund a research project. During the three months ended March 31, 2017 the Company expended $28,337 (year ended December 31, 2016 - $21,663) of the restricted cash on eligible expenses and equipment. The balance of grants received of $NIL (December 31, 2016 - $28,337) are restricted for eligible project expenditures which have not yet been incurred; therefore, they are presented as deferred revenue.

Deferred revenue also includes $NIL (December 31, 2016 - $178,848) for prepaid sales orders from customers.

9. 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, 2017		Year Ended December 31, 2016	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance at beginning of the period	74,872,225	14,859,136	62,490,821	6,800,018
Stock options exercised	178,000	72,520	1,275,031	333,999
Warrants exercised	250,000	487,435	172,500	335,927
Issuance of common share units	-	-	9,433,962	7,944,661
Common share issuance costs, net of tax benefit of $238,621	-	-	-	(1,515,413)
Conversion of debentures	-	-	1,499,911	959,944
Balance at end of the period	75,300,225	15,419,091	74,872,225	14,859,136

In July 2016, pursuant to a brokered private placement, the Company issued 9,433,962 units at $1.06 per unit for aggregate proceeds of $10,000,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one additional common share at an exercise price of $1.50 for a period of 24 months following the closing of each tranche of the offering. 5,348,592 units were issued pursuant to the first close on July 8, 2016 and 4,085,370 units were issued pursuant to the second and final close on July 13, 2016.

The fair value of the whole warrant for both closings was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.5%, an expected life of the warrant of 2 years, no expected dividends, and an expected volatility of 98% which was based on prior trading activity of the Company's shares. The total proceeds from the sale of units has been allocated to share capital and contributed surplus in the amount of $7,944,661 and $2,055,339 respectively, in proportion to the relative fair values of the common share and warrant.

Included in common share issuance costs, is a cash commission of $700,000 representing 7% of the gross proceeds raised paid to the broker. In addition, the Company issued to the broker 660,377 compensation broker unit warrants (each a "broker unit warrant") representing 7% of the total common shares issued in connection with the offering. Each broker unit warrant entitles the broker to acquire one common share (each a "broker share") and one-half of one common share purchase warrant (each a "broker warrant") at a price of $1.06 for a period of 24 months following the closing of each tranche of the offering. 374,401 broker unit warrants were issued pursuant to the first close on July 8, 2016 and 285,976 broker unit warrants were issued pursuant to the second and final close on July 13, 2016. Each whole broker warrant entitles the broker to acquire one additional common share at an exercise price of $1.50 for a period of 24 months following the closing of each tranche of the offering.

The fair value of the broker unit warrants and the broker warrants for both closings was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.5%, an expected life of the warrant of 2 years, no expected dividends, and an expected volatility of 98% which was based on prior trading activity of the Company's shares. The fair value of the broker unit warrants in the amount of $870,253 is included in common share issuance costs and has been presented as part of contributed surplus.

In December 2016, the Company issued 1,499,911 common shares on the conversion of debentures totaling $959,944 at a conversion price of $0.64 per share.

c. Warrants

The following table summarizes the continuity of warrants:

	Three Months Ended March 31, 2017		Year Ended December 31, 2016	
	Number of Warrants	Weighted Average Exercise Price $	Number of Warrants	Weighted Average Exercise Price $
Balance at beginning of the period	5,204,857	1.44	-	-
Issued with common share units	-	-	4,716,980	1.50
Issued to brokers	-	-	660,377	1.06
Exercised	(250,000)	1.50	(172,500)	1.50
Balance at end of period	4,954,857	1.44	5,204,857	1.44

The following table summarizes information about warrants outstanding:

Exercise Price $	Expiry Date	March 31, 2017 Number of Warrants	December 31, 2016 Number of Warrants
1.50	July 8, 2018	2,264,296	2,514,296
1.50	July 13, 2018	2,030,184	2,030,184
1.06	July 8, 2018	374,401	374,401
1.06	July 13, 2018	285,976	285,976
		4,954,857	5,204,857

d. 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, 2017, the Company granted 400,000 (March 31, 2016 ï 160,000) 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 2017 was 1.71% (2016 ï 0.84%), the weighted average expected volatility was 118% (2016 - 105%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2016 ï 5 years), forfeiture rate was 0% (2016 - 0%), the weighted average share price was $1.75 (2016 ï $0.42), the weighted average exercise price was $1.75 (2016 ï $0.42), and the expected dividends were nil (2016 - nil). The weighted average grant date fair value of options granted in the three months ended March 31, 2017 was $1.65 (2016 - $0.28) per option.

The share-based payments expense recorded during the current period relating to options granted in 2017, 2016, and 2015 was $306,687 (during 2016 relating to options granted in 2016, 2015, and 2014 - $51,663).

A summary of the status of the Company's stock options at March 31, 2017 and December 31, 2016 and changes during the years ended on those dates is as follows:

	Three Months Ended March 31, 2017		Year Ended December 31, 2016	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the period	2,263,302	0.36	3,446,667	0.28
Granted	400,000	1.75	160,000	0.42
Exercised	(178,000)	0.22	(1,275,031)	0.15
Forfeited	-	-	(68,334)	0.46
Outstanding at end of period	2,485,302	0.59	2,263,302	0.36
Exercisable at end of period	2,136,967	0.45	1,836,634	0.31

e. Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	March 31, 2017 Number of Options	December 31, 2016 Number of Options
1.65	1.75	2027	9.8	400,000	-
0.25	0.27	2025	8.3	3,334	3,334
0.25	0.27	2025	8.3	3,334	3,334
0.34	0.36	2025	8.1	150,000	150,000
0.47	0.50	2025	7.8	100,000	100,000
0.60	0.64	2025	7.8	773,634	811,634
0.37	0.27	2024	7.6	150,000	150,000
0.13	0.14	2024	7.2	50,000	50,000
0.08	0.10	2024	6.8	300,000	425,000
0.05	0.10	2023	5.8	295,000	310,000
0.09	0.10	2022	5.3	160,000	160,000
0.22	0.44	2018	0.9	100,000	100,000
			7.3	2,485,302	2,263,302

f. Contributed surplus

	Three Months Ended March 31, 2017 $	Year Ended December 31, 2016 $
Balance at beginning of the period	3,874,725	1,029,564
Issuance of common share units (note 9 (b))	-	2,055,339
Common share issuance costs (note 9 (b))	-	870,253
Share-based payments (note 9 (d))	306,687	144,958
Stock options exercised	(34,200)	(148,212)
Warrants exercised	(112,435)	(77,177)
Balance at end of the period	4,034,777	3,874,725

10. 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, 2017 $	Year Ended December 31, 2016 $
Opening balance	274,175	308,471
Repayment	-	(83,884)
Accretion of CAAP loan	10,411	49,588
	284,586	274,175
Less current portion	75,677	72,942
	208,909	201,233

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

11. 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,	2017 $	2016 $
Convertible debentures held by a company controlled by an officer and by a close family member of a director	-	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
Key management salaries, short-term benefits, consulting fees, and director fees	200,961	141,902
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	40,000	21,000
Key management personnel share-based payments	304,528	23,488
Amount payable to directors	39,594	40,540

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.

12. OTHER OPERATING LOSS

Three Months Ended March 31,	2017 $	2016 $
Foreign exchange loss	11,025	37,844
Other expense	886	861
Quality management system	40,179	-
Plant relocation costs	128,953	136,987
	181,043	175,692

13. FINANCE COSTS

Three Months Ended March 31,	2017 $	2016 $
Interest on long-term debt	8,543	11,556
Transaction costs	4,511	6,372
Royalties	55,000	50,000
Accretion of CAAP loan	10,411	11,713
Accretion of convertible debentures	-	18,840
	78,465	98,481

14. SEGMENTED INFORMATION

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

Three Months Ended March 31,	2017 $	2016 $
United States	2,473,426	2,198,382
Germany	678,908	1,718,010
China	12,430	88,953
Other	18,746	45,574
Canada	-	12,657
	3,183,510	4,063,576

15. EMPLOYEE BENEFITS

Three Months Ended March 31,	2017 $	2016 $
Employee benefits	1,000,167	637,903

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

16. 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 been made in the consolidated financial statements for this litigation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17. 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 (ñCAAPò) loan is recorded at the amount drawn under the agreement, discounted using the prevailing market rate of interest for a similar instrument, which represents the estimated fair value of the obligation.

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

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

	March 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Loans and receivables:				
Cash and cash equivalents	$ 7,828,403	$ 7,828,403	$ 9,150,035	$ 9,150,035
Trade and other receivables	1,211,392	1,211,392	688,435	688,435
Other financial liabilities:				
Accounts payable and accrued liabilities	$ 1,028,957	$ 1,028,957	$ 969,234	$ 969,234
Long-term debt	2,018,335	2,018,335	2,257,904	2,257,904
CAAP loan	284,586	284,586	274,175	274,175

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

a) Credit risk

Trade and other receivables

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 91% of trade receivables are due from one distributor at March 31, 2017 (December 31, 2016 – 86% from two distributors) and all trade receivables at March 31, 2017 and December 31, 2016 are current. These main distributors are considered to have good credit quality and historically have a high quality credit rating.

Other receivables represent amounts due for research program claims, government goods and services taxes, and scientific 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 $7,828,403 at March 31, 2017 (December 31, 2016 - $9,150,035) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

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

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	1,028,957	-	-	-	1,028,957
Long-term debt	1,036,905	1,035,799	65,933	-	2,138,637
CAAP loan	83,884	167,767	167,767	-	419,418
Total	2,149,746	1,203,566	233,700	-	3,587,012

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	834,628	8,346	(8,346)
Financial liabilities			
Accounts payable and accrued liabilities	403,119	(4,031)	4,031
Total increase (decrease)		4,315	(4,315)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% **Earnings & Equity**	**+1%** **Earnings & Equity**
Financial liabilities			
Long-term debt	383,291	(3,833)	3,833
Total (decrease) increase		(3,833)	3,833

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, 2017.

2. Interest rate risk

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

18. 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, 2017.

19. INCOME PER COMMON SHARE

Three Months Ended March 31,	2017	2016
Net income for the period for basic and diluted earnings per share calculation	$17,768	$1,213,392
Weighted average number of common shares outstanding	75,167,058	62,583,239
Effect of dilutive stock options and warrants	1,662,166	1,593,594
Effect of dilutive convertible debentures	-	1,500,000
Diluted weighted average number of common shares	76,829,224	65,676,833
Income per share - basic	$0.00	$0.02
Income per share - diluted	$0.00	$0.02

For the three month period ended March 31, 2017, 400,000 stock options outstanding have not been included in the diluted income per share calculation because either the 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.

For the three month period ended March 31, 2016, 1,215,000 stock options outstanding 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 a 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.