The MD&A provides commentary on the results of operations for the periods ended March 31, 2022 and 2021, the financial position as at March 31, 2022, and the outlook of Ceapro Inc. ("Ceapro" and "the Company") based on information available as at May 17, 2022. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at March 31, 2022, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2021, 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, 2021. All comparative percentages are between the periods ended March 31, 2022 and 2021 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 May 17, 2022 and contains forward-looking statements. Forward-looking statements and information can generally be identified by the use of forward-looking terminology such as 'may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", "plans" or similar terminology. 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. Effective December 31, 2021, the Company wound up Ceapro Technology Inc., Ceapro Active Ingredients Inc. and Ceapro BioEnergy Inc. into the Company and dissolved Ceapro USA Inc.

Ceapro is a growth stage biotechnology company. Our primary business activities relate to the development and commercialization of natural products for personal care, cosmetic, human, and animal health industries using proprietary technology, natural, renewable resources, and developing 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 94% of trade receivables are due from one distributor at March 31, 2022 (December 31, 2021 – 93% 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:

	March 31, 2022 $	December 31, 2021 $
Not yet due	1,553,013	1,378,587
Less than 30 days past due	1,979,672	262,125
Less than 60 days past due, more than 30 days past due	7,872	413,842
More than 60 days past due	-	38,288
Total	3,540,557	2,092,842

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 March 31, 2022 and December 31, 2021 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 $8,781,572 at March 31, 2022 (December 31, 2021 - $7,780,989) 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 is the contractual maturity of the Company's financial liabilities and obligations as at March 31, 2022:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	556,695	-	-	-	556,695

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 March 31, 2022.

	Carrying Amount (USD)	**Foreign Exchange Risk (CDN)**	
		-1%	**+1%**
		Earnings & Equity	**Earnings & Equity**
Financial assets			
Accounts receivable	2,833,202	35,919	(35,919)
Financial liabilities			
Accounts payable and accrued liabilities	180,012	(2,282)	2,282
Total increase (decrease)		33,637	(33,637)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at March 31, 2022.

2. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The Company has minimal interest rate risk because it has no long-term debt.

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) Operation factors

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.

f) Significant accounting estimates and assumptions

Ceapro's consolidated financial statements are prepared within a framework of IFRS. 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 lease term and discount rate used to measure leases, and the assumptions used in determining share-based compensation. 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.

g) 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.

h) 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.

i) 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.

j) 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.

k) 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.

l) 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.

m) Intellectual property

Ceapro's success will depend, in part, on its ability to obtain and maintain patents and trademarks and to secure and protect, trade secrets, proprietary technology and manufacturing processes and other intellectual property rights either developed internally or acquired, and to operate without infringing on the proprietary rights of others or have others infringe on its rights. Although Ceapro expends significant resources and efforts to patent its discoveries and innovations, there can be no assurance that patent applications will result in the issuance of patents or that any patents issued to Ceapro will provide it with adequate protection or any competitive advantages, or that such patents will not be successfully challenged by third parties. The Company cannot be assured competitors will not independently develop products similar to the Company's products designed to circumvent exclusive rights granted to the Company.

n) Cyber security

The Company depends upon the reliability and security of our information technology systems in the normal course of operations. Ceapro is subject to a variety of information technology and systems risks including virus, cyber-attacks, security breach and destruction or interruption of information technology systems. Although the Company has controls and security measures in place that are designed to mitigate these risks, a breach of these measures could occur and result in a loss of material and confidential information and disruption to business activities.

o) 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.

p) 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. In addition to the impact on operations, these same disruptions may also adversely affect our research and development partners, research institutions, and laboratories which can negatively impact and delay our research programs. 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
Periods Ended March 31, 2022 and 2021

CONSOLIDATED INCOME STATEMENT

$000s except per share data	2022	%	2021	%
Total revenues	**6,172**	**100%**	**4,702**	**100%**
Cost of goods sold	2,217	36%	2,444	52%
Gross margin	**3,955**	**64%**	**2,258**	**48%**
Research and product development	355	6%	817	17%
General and administration	769	12%	712	15%
Sales and marketing	5	0%	13	0%
Finance costs	88	1%	94	2%
Income from operations	**2,737**	**44%**	**622**	**13%**
Other expenses	123	2%	107	2%
Income before tax	**2,614**	**42%**	**515**	**11%**
Deferred income tax expense	618	10%	-	0%
Net income	**1,996**	**32%**	**515**	**11%**
Basic net income per common share	0.03		0.01	
Diluted net income per common share	0.03		0.01	

The following sections discuss the consolidated results from operations.

Revenue

	Three Months Ended March 31,		
$000s	2022	2021	Change
Total revenues	6,172	4,702	31%

Revenue for the first quarter ended March 31, 2022, increased by approximately $1,470,000 or 31% over the comparative quarter in 2021. The increase was primarily driven by a 32% increase in product sales volume over the comparative quarter due to higher sales of the Company's flagship product avenanthramides and value driver product beta glucan. The difference in revenue between the current and comparative quarter was not significantly impacted by foreign exchange.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

	Three Months Ended March 31,		
$000s	2022	2021	Change
Sales	6,172	4,702	31%
Cost of goods sold	2,217	2,444	-9%
Gross margin	3,955	2,258	75%
Gross margin %	64%	48%	

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 property and equipment. 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 first quarter ended March 31, 2022, revenue increased by approximately 31% and cost of goods sold decreased by 9%, this resulted in an increase in the gross margin percentage from 48% in the prior quarter to 64% in the current quarter.

Cost of goods sold in the first quarter of 2022 was impacted by a few significant factors. First, while the cost of raw materials used in the production of our products have been increasing nearly across the board, the production and sale of goods in this quarter primarily used work in progress from the prior year, alleviating the impact of inflation that we are currently experiencing. Last season's high-quality grain was still being used, so the finished goods output from this grain was still very high and overcame cost increases from other raw materials. Production output this quarter was also double the output from the comparative quarter, while overhead costs were very consistent with the comparative quarter, and this was partially a result of the grain used and partially a result of the significant capital improvements that were put into the production process during the fourth quarter of 2020 and were scaled up during 2021.

RESEARCH AND PRODUCT DEVELOPMENT

	Three Months Ended March 31,		
$000s	2022	2021	Change
Salaries and benefits	198	229	
Regulatory and patents	92	107	
Clinical studies	-	381	
Other	65	100	
Total research and product development expenditures	355	817	-57%

During the three month period ended March 31, 2022, research and development expenses decreased by $462,000 or 57%. The decrease is primarily due to the completion of a pilot clinical study for the development of beta glucan as a cholesterol reducer in 2021 and partially due to lower expenditures on other projects, salaries and benefits expense, and regulatory and patent expense.

Regulatory and patents expense will vary from period to period based on the timing of fillings and maintenance payments.

Research and development salaries expense is lower in the current quarter compared to the prior quarter primarily due to higher grant funding received in the current quarter.

Expenditures on other projects during the current quarter are lower than the comparative quarter primarily due to the receipt of grant funding against contractor fees for PGX related projects in the current quarter for which there was no associated funding in the comparative quarter. This was offset by an increase in expenditures relating to the finalization of protocol development for a new clinical study on avenanthramides, as the protocol is adapted based on discussions with Health Canada. While current quarter expenditures are lower, the Company expects research and development spending to increase in the remainder of 2022, especially once the new clinical study moves forward. Significant investment in research and development is 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.

GENERAL AND ADMINISTRATION

	Three Months Ended March 31,		
$000s	2022	2021	Change
Salaries and benefits	217	169	
Consulting	120	120	
Licensing activities	53	46	
Board of Directors compensation	59	41	
Insurance	49	40	
Accounting and audit fees	32	18	
Rent	18	17	
Public company costs	68	106	
Travel	4	-	
Depreciation and amortization	77	84	
Legal	3	7	
Other	69	64	
Total general and administration expenses	769	712	8%

General and administration expense for the three month period ended March 31, 2022 increased by $57,000 or 8% from the comparative quarter. Expenses overall are consistent with the prior quarter. One of the more significant differences was an increase in salaries and benefits expense which is partially due to inflationary increases in salaries and wages and partially related to a new hire in the accounting department compared to the prior quarter. Another increase was to Board of Director compensation due to the addition of a new director in the current quarter and the share-based payment expense relating to the granting of stock options to the new director. Accounting and audit fees also increased due to the timing of audit and tax invoicing compared to the comparative quarter. These increases were offset partially by a decrease in public company costs as one of the investor communication programs still in place in the first quarter of 2021 was scaled back by the end of 2021 and is not reflected in the current quarter.

SALES AND MARKETING

	Three Months Ended March 31,		
$000s	2022	2021	Change
Courses, conferences & advertising	5	13	
Total sales and marketing	5	13	-62%

Sales and marketing expense for the three month period ended March 31, 2022, decreased by $8,000 or 62% from the comparative quarter.

The Company's primary marketing strategy is to sell mostly though a distribution network instead of selling directly to end-users and as a result sales and marketing expenses are negligible.

The expenses incurred in the current and comparative quarter primarily relate to the Company's subsidiary Juvente which has not been focusing on these activities while the COVID-19 pandemic has restricted sales activities primarily to website sales.

FINANCE COSTS

	Three Months Ended March 31,		
$000s	2022	2021	Change
Interest on lease liabilities	33	36	
Royalties	55	55	
Accretion of CAAP loan	-	3	
	88	94	-6%

Finance costs decreased by 6% or $6,000 in the three month period ended March 31, 2022, from $94,000 in 2021 to $88,000. The decrease is partially attributable to lower interest on the lease liabilities as the principal portion of these liabilities are lower from ongoing repayment. The decrease is also partially due to there being no accretion on the CAAP loan in the current quarter as it was fully repaid at December 31, 2021.

OTHER EXPENSES

	Three Months Ended March 31,		
$000s	2022	2021	Change
Foreign exchange loss	107	76	
Plant relocation costs	19	28	
Other expense (income)	(3)	3	
	123	107	15%

During the three month period ended March 31, 2022, other expenses increased by $16,000 or 15% from $107,000 to $123,000. The increase was primarily due to a higher foreign exchange loss during the current quarter compared to the prior quarter offset by a slight decrease in 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 both 2022 and 2021 the US dollar weakened resulting in foreign exchange losses but the foreign exchange loss realized in the current quarter was greater than the comparative quarter.

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. While the shut down and transfer of the Leduc manufacturing facility was completed in 2020 there are still some associated storage costs. Also included in this account are costs relating to additional bays of the facility that have not yet commenced construction.

DEPRECIATION AND AMORTIZATION EXPENSE

In the three month period ended March 31, 2022, the total depreciation and amortization expense was $462,000 which was consistent with expense of $468,000 in the comparative period in 2021. The expense was allocated as follows: $77,000 to general and administration expense (2021 - $83,000), $145,000 to inventory (2021 - $59,000), and $240,000 (2021 – $326,000) to cost of goods sold.

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	2022	2021				2020		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenues	6,172	3,562	4,523	4,408	4,702	2,706	3,476	4,666
Net income (loss)	1,996	776	875	676	515	(539)	192	1,077
Basic net income (loss) per common share	0.026	0.010	0.011	0.009	0.007	(0.007)	0.002	0.014
Diluted net income (loss) per common share	0.025	0.010	0.011	0.009	0.007	(0.007)	0.002	0.014

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.

Significant New Accounting Standards

There were no new standards that became effective for periods beginning on or after January 1, 2022 that have a material impact on the Company's unaudited consolidated financial statements for three month period ended March 31, 2022.

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	March 31, 2022	December 31, 2021
Non-current assets	18,080	18,801
Current assets	14,442	11,727
Current liabilities	(850)	(972)
Total assets less current liabilities	31,672	29,556
Non-current liabilities	2,463	2,359
Shareholders' equity	29,209	27,197
Total capital employed	31,672	29,556

Non-current assets decreased by $721,000, partially due to the utilization of deferred tax assets of $439,000 on the Company's estimated first quarter income tax provision, and partially due to a depreciation provision of $462,000 and an amortization provision on licences of $1,000 offset by the acquisition of $181,000 of property and equipment.

Current assets increased by $2,715,000 primarily due to an increase in cash from operations of $1,001,000, an increase in trade and other receivables in the amount of $1,478,000, an increase in inventories of $100,000, and an increase in prepaid expenses and deposits of $135,000.

Current liabilities totaling $850,000 decreased by the net amount of $122,000 primarily due to a decrease in accounts payable and accrued liabilities of $125,000 offset by an increase in the current portion of lease liabilities of $3,000.

Non-current liabilities totaling $2,463,000 increased by the amount of $104,000 primarily due to the recognition of deferred tax liabilities of $179,000 on the Company's estimated first quarter income tax provision offset by the repayment of lease liabilities and reallocation of current portion of the lease liabilities of $75,000.

Equity of $29,209,000 at March 31, 2022 increased by $2,012,000 from equity of $27,197,000 at December 31, 2021, primarily due to the recognition of net income of $1,996,000 for the three month period ended March 31, 2022, the recognition of share-based payment compensation of $15,000, and due to the issuance of shares from the exercise of stock options of $1,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended March 31, 2022 and 2021.

	Three Months Ended March 31,	
$000s	2022	2021
Sources of funds:		
Funds generated from operations adjusted for non-cash items	3,124	1,026
Share issuance	1	22
	3,125	1,048
Uses of funds:		
Purchase of property and equipment	(181)	(272)
Changes in non-cash working capital items relating to operating activities	(1,791)	(685)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	(48)	(123)
Interest paid	(33)	(36)
Repayment of lease liabilities	(71)	(62)
	(2,124)	(1,178)
Net change in cash flows	1,001	(130)

Net change in cash flow was an increase of $1,001,000 during the three month period ended March 31, 2022 in comparison with a decrease of $130,000 for the comparative quarter. Cash generated from operations of $1,333,000 (after adjustment for non-cash items and working capital items) in the current quarter was higher than the comparative quarter where cash generated from operations was $341,000 and this was primarily due to a significant increase in sales in the current quarter and a decrease in the investment in research and development of $462,000 compared to the prior quarter. Another reason for the difference relates to a decrease in the purchase of property and equipment in the current quarter over the prior quarter.

The Company has a positive working capital balance (defined as current assets less current liabilities) of $13,591,417 at March 31, 2022. 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 May 17, 2022, were 77,686,843 (May 18, 2021 – 77,672,843). In addition, 3,289,333 stock options as at May 17, 2022 (May 18, 2021 – 2,991,999 stock options) were outstanding that are potentially convertible into an equal number of common shares at various prices.

GRANT FUNDING

a) 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 was 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 was recorded as a reduction of research and development expenses. During the year ended December 31, 2021, the Company received $68,522 which was recorded as a reduction of research and development expenses. The project was completed as at December 31, 2021.

b) During the year ended December 31, 2021, the Company entered into a new 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 $480,000 for costs incurred on the design of a pharmaceutical PGX processing unit, impregnation unit, and spray chamber unit for the Company's PGX Technology with the aim to boost the innovation capacity of the technology towards pharmaceutical applications. During the year ended December 31, 2021, the Company received or recorded as a receivable $57,651 which was recorded as a reduction of research and development expenses. During the first quarter of 2022, the Company received or recorded as a receivable $158,228 which has been recorded as a reduction of research and development expenses. The Company anticipates receiving an additional $255,000 over the period April 1, 2022 to March 31, 2023.

Related Party Transactions

During the three month period ended March 31, 2022, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $262,000 (2021 – $248,000) and share-based payments expense for key management personnel was $14,000 (2021 - $2,000).

The amount payable to directors at March 31, 2022, was $46,000 (2021 - $40,000).

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

Commitments and Contingencies

(a) During the year ended December 31, 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

We are very proud of the results obtained in Q1, 2022. Despite the fact that inflation is prevailing on all fronts, management believes the prospects for the Company remain very strong for the remainder of the year. This statement being supported by the Company's diligent material planning program in place through advanced purchase of the best available raw material, the operational efficiencies from our extraction facility in Edmonton along with a strengthened partnership with the Symrise Group. Ceapro's cosmeceuticals base business should continue to grow and provide positive cash flows to support the expansion to a new business model from a contract manufacturer/commodity company to a high value life science/biopharmaceutical company involved in nutraceuticals and pharmaceuticals. We then expect to further invest in R&D to initiate an early clinical trial with our newly developed pill of avenanthramides, to continue the development of new chemical complexes as potential delivery systems for bioactives, and to emphasize our current efforts for the development and assessment of yeast beta glucan as an immune booster and as a potential inhalable therapeutic for lung fibrotic diseases including COVID 19 conditions.

Results from bioavailability studies with new chemical complexes including alginate and results with yeast beta glucan as an immune booster will drive decisions for capital expenditures that would be incurred for the building of a commercial scale unit for PGX Technology.

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.