TSX-V: CZO

Consolidated Financial Statements for the Years Ended December 31, 2016 & 2015

The MD&A provides commentary on the results of operations for the years ended December 31, 2016 and 2015, the financial position as at December 31, 2016, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 5, 2017. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2016, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2015, 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, 2015. All comparative percentages are between the years ended December 31, 2016 and 2015 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A offers our assessment of Ceapro's future plans and operations as at April 5, 2017, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

Vision, Core Business, and Strategy

Ceapro is incorporated under the Canada Business Corporations Act; and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products 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. On April 1, 2016, the Company completed a vertical amalgamation with its wholly-owned subsidiary Ceapro Veterinary Products 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 innovation.

Our products include:

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

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 Expansion drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds;

- The development of a new oat variety and certain technologies to increase the content of avenanthramides to high levels to enable new innovative products to be introduced to new markets including medicinal foods, nutraceuticals, and botanical drugs; and

- *CeaProve®*, a diabetes test meal to screen pre-diabetes and to confirm diabetes diagnosis.

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

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

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

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

- Developing and improving manufacturing technologies to ensure efficiencies; and

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

As a knowledge-based enterprise, we will also expand and strengthen our patent portfolio and build the necessary manufacturing infrastructure to become a global technology 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 86% of trade receivables are due from two distributors at December 31, 2016 (December 31, 2015 – 94% from two distributors) and all trade receivables at December 31, 2016 and December 31, 2015 are current. These main distributors are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $9,150,035 at December 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 Company’s trade and other receivables and cash and cash equivalents. The Company does not hold any collateral as security.

b) Liquidity risk

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

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

	within 1 year	1 to 3 years	3 to 5 years	over 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	969,234	-	-	-	969,234
Long-term debt	1,068,491	1,218,657	115,383	-	2,402,531
CAAP loan	83,884	167,767	167,767	-	419,418
Total	2,121,609	1,386,424	283,150	-	3,791,183

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	421,557	4,216	(4,216)
Financial liabilities			
Accounts payable and accrued liabilities	209,359	(2,094)	2,094
Total increase (decrease)		2,122	(2,122)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial liabilities			
Long-term debt	434,025	(4,340)	4,340
Total (decrease) increase		(4,340)	4,340

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

2. Interest rate risk

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

d) Share price risk

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

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

e) People and process risk

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

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

f) Loss of key personnel

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

g) Interruption of raw material supply

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

h) Environmental issues

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

i) Regulatory compliance

As a natural extract producer, Ceapro is subject to various regulations and violation of these could limit markets into which we can sell. Ceapro has introduced a range of procedures which will ensure that Ceapro is well prepared for new regulations and obligations that may be required.

Future accounting policies not yet adopted

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

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

IFRS 9 “Financial instruments”

In July 2014, the IASB released the final version of IFRS 9 “Financial instruments”, representing the completion of its project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. The new standard introduces extensive changes to IAS 39’s guidance on the classification and measurement of financial assets and introduces a new “expected credit loss” model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

IFRS 9 is effective for reporting periods beginning on or after January 1, 2018. The Company’s management has not yet assessed the impact on these consolidated financial statements.

IFRS 15 “Revenue from Contracts with Customers”

In May 2014, the IASB released IFRS 15 “Revenue from Contracts with Customers” which presents new requirements for the recognition of revenue, replacing IAS 18 “Revenue”, IAS 11 “Construction contracts”, and several revenue related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The Company’s management has not yet assessed the impact of IFRS 15 on these consolidated financial statements.

IFRS 16 “Leases”

In January 2016, the IASB released IFRS 16 “Leases” replacing IAS 17 “Leases” and related interpretations. The new standard eliminates the classification of leases as either operating or finance leases and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value.

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Company’s management has not yet assessed the impact of IFRS 16 on these consolidated financial statements.

Results of Operations
Years Ended December 31, 2016, 2015 and 2014

CONSOLIDATED INCOME STATEMENT

$000s except per share data	2016	%	2015	%	2014	%
Total revenues	**13,674**	**100%**	**10,668**	**100%**	**8,890**	**100%**
Cost of goods sold	4,321	32%	3,639	34%	4,126	46%
Gross margin	**9,353**	**68%**	**7,029**	**66%**	**4,764**	**54%**
Research and product development	919	7%	625	6%	578	7%
General and administration	2,187	16%	2,519	24%	1,984	22%
Sales and marketing	5	0%	8	0%	14	0%
Finance costs	243	2%	247	2%	188	2%
Income from operations	**5,999**	**44%**	**3,630**	**34%**	**2,000**	**22%**
Other operating (loss) income	(636)	-5%	204	2%	(406)	-5%
Income before tax	**5,363**	**39%**	**3,834**	**36%**	**1,594**	18%
Income tax (expense) recovery	(1,743)	-13%	1,088	10%	-	0%
Net income	**3,620**	**26%**	**4,922**	**46%**	**1,594**	**18%**
Basic net income per common share	0.053		0.080		0.026	
Diluted net income per common share	0.051		0.075		0.025	

During the year ended December 31, 2016, the Company incurred a tax expense of $1,743,000 relating to the taxable income generated during the year and other tax adjustments relating to the filing of pre-amalgamation tax returns.

The Company utilized investment tax credits to reduce federal income taxes payable and recognized a current income tax payable for the provincial income taxes payable on pre-amalgamation taxable income in the first quarter.

The Company utilized deferred tax assets against the taxable income for the remaining quarters resulting in no additional current income tax payable.

During the prior year ended December 31, 2015, the Company recognized previously unrecognized net deferred tax assets which is the primary reason for an income tax benefit of $1,088,000 included in net income. Management had recognized the net deferred tax assets to the amount that it had determined probable to be realized based on a determination of estimated future tax profit.

The following sections discuss the remaining results from operations.

Revenue

	Year Ended December 31,			Quarter Ended December 31,		
$000s	2016	2015	Change	2016	2015	Change
Total revenues	13,674	10,668	28%	2,425	3,435	-29%

Total sales revenue increased by approximately $3,006,000 from $10,668,000 in 2015 to $13,674,000 in 2016.

Product sales in the year ended December 31, 2016 represented the highest sales volume in the Company's history. Total sales volume increased by 23% over the prior year. Ceapro also continued to benefit from a higher U.S. dollar relative to the Canadian dollar compared to the prior year which positively impacted revenue by approximately $562,000.

Revenue in the fourth quarter of 2016 decreased by $1,010,000 or 29% compared to the comparative quarter. The difference was primarily due to a significant reduction of orders for beta glucan in the fourth quarter of 2016 compared to the same period in the prior year.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

	Year Ended December 31,			Quarter Ended December 31,		
$000s	2016	2015	Change	2016	2015	Change
Sales	13,674	10,668	28%	2,425	3,435	-29%
Cost of goods sold	4,321	3,639	19%	813	831	-2%
Gross margin	9,353	7,029	33%	1,612	2,604	-38%
Gross margin %	68%	66%		66%	76%	

Cost of goods sold is comprised of the direct raw materials required for the specific formulation of products, as well as direct labour, quality assurance and control, packaging, transportation costs, plant costs, and amortization on plant and equipment assets. Aside from labour, rent, quality control related expenses, overhead, and property plant and equipment amortization, the majority of costs are variable in relation to the volume of product produced or shipped.

During the year ended December 31, 2016, cost of goods sold increased by $682,000 or 19% from $3,639,000 to $4,321,000 while at the same time sales increased by 28% which has contributed to the overall increase in the gross margin percentage. The company has maintained the operational efficiencies that were experienced in fiscal 2015 which were driven by factors such as higher output generated from the use of favourable feedstock, efficiencies from additional shifts, and a continued focus on cost controls on materials and overhead expenses. The gross margin percentage improved slightly from 66% in fiscal 2015 to 68% in fiscal 2016.

The results of the fourth quarter of 2016 were not as high as the comparative quarter in fiscal 2015 which was exceptionally above usual. Cost of goods sold did not decrease proportionally to the sales decrease which contributed to an overall decrease in the gross margin compared to 2015. The decrease in the gross margin percentage was partially impacted by overhead expenses which were allocated over a higher quantity of goods produced at the end of 2015 versus the end of 2016 due to the training of operators and engineering runs in the new manufacturing facility, but it was largely impacted by the fact that there was a higher percentage of sales of the Company's higher margin value drivers in the fourth quarter of 2015 as opposed to the fourth quarter of 2016.

RESEARCH AND PRODUCT DEVELOPMENT

	Year Ended December 31,			Quarter Ended December 31,		
$000s	2016	2015	Change	2016	2015	Change
Salaries and benefits	487	342		142	96	
Regulatory and patents	161	137		54	30	
Other	259	122		180	11	
	907	601	51%	376	137	174%
Product development - CeaProve®	12	24	-50%	12	3	300%
Total research and product development expenditures	919	625	47%	388	140	177%

During year ended December 31, 2016, research and development expenses before CeaProve® increased by 51% or $306,000 in comparison with the same period in 2015. The increase in research and development expenses is primarily due to the Company's continued focus on investing in its various enabling technologies and research on product development and new applications for its value driving products. The Company intends to continue to increase investment in research and development in the next fiscal year.

The Company continued to hire additional research and development staff during 2016 which resulted in higher salary and benefit costs compared to 2015. The increase in salary and benefit expenses was offset by the receipt of grant funding for some key staff who are working primarily on the Company's Pressurized Gas Expanded (PGX) Technology project.

The other primary increase in research and product development expenses relate to the commencement of expenditures on a clinical program with avenanthramides as an anti-inflammatory compound in 2016, on the commencement of a pilot clinical study to develop beta glucan as a cholesterol reducer in 2016, as well as due to the increased investment on enabling technologies compared to the prior year. The increase in research and development in 2016 was partially offset by the recognition of significantly higher scientific research and development tax credits in the year compared to the prior year.

Regulatory and patent expenses also slightly increased in fiscal 2016 due to increased patent applications for its enabling technologies.

CeaProve® expenditures relate to patent renewals. The timing of patent renewals will vary throughout the year and in 2016 the overall expense was lower than 2015.

GENERAL AND ADMINISTRATION

	Year Ended December 31,			Quarter Ended December 31,		
$000s	2016	2015	Change	2016	2015	Change
Salaries and benefits	428	704		137	120	
Consulting	407	335		213	136	
Board of directors compensation	211	361		51	77	
Insurance	130	111		35	30	
Accounting and audit fees	89	79		18	22	
Rent	88	91		22	23	
Public company costs	314	232		63	54	
Travel	149	107		26	23	
Depreciation	139	174		19	42	
Legal	38	179		5	2	
Other	194	146		50	37	
Total general and administration expenses	2,187	2,519	-13%	639	566	13%

General and administration expense for the year ended December 31, 2016 decreased by 332,000 or 13% from the prior year. The decrease was primarily due to lower salaries and benefits expense, board of directors compensation, and legal fees which was offset by increases in consulting fees, public company costs, and travel expenses.

Salaries and benefits expense decreased by approximately $276,000. This was primarily due to lower non-cash share-based payments in 2016 of approximately $112,000 relating to fewer stock options granted to employees. The expense also decreased because, in the prior year, lump sum payments were made to a former officer and there were fewer administrative employees in 2016. Board of director compensation also decreased by approximately $150,000 which was almost entirely due to lower non-cash share-based payments in 2016. Legal fees decreased by approximately $141,000 as the AVAC trial was completed in 2015 and there were no corresponding legal fees in the current year.

Consulting fees increased primarily due to additional fees paid to an officer in the fourth quarter of 2016. Public company cost increases were driven by an increased emphasis on investor relations and financing activities, increased communication, and website development costs. Travel expenses increased due to increased conference attendance, meetings, and attendance at corporate events.

During the fourth quarter of 2016, general and administration expenses increased by approximately $73,000 or 13%. The increase was primarily due to additional consulting fees paid to an officer in the quarter.

SALES AND MARKETING

	Year Ended December 31,			Quarter Ended December 31,		
$000s	2016	2015	Change	2016	2015	Change
Courses, conferences & advertising	1	5		-	-	
Other	4	3		1	1	
Total sales and marketing	5	8	-38%	1	1	0%

Marketing expenses are negligible due to the Company's strategy to sell mostly through a distribution network instead of selling directly to end-users.

FINANCE COSTS

$000s	Year Ended December 31, 2016	2015	Change	Quarter Ended December 31, 2016	2015	Change
Interest on long-term debt	38	53		6	13	
Transaction costs	25	25		6	7	
Royalties	50	50		-	-	
Accretion of CAAP loan	50	54		14	14	
Accretion of convertible debenture	80	65		21	18	
	243	247	-2%	47	52	-10%

Finance costs decreased by 2% or $4,000 in the year ended December 31, 2016 from $247,000 in 2015 to $243,000. The decrease primarily relates to lower interest expense on long-term debt and lower accretion on the CAAP loan which is offset by a higher accretion expense relating to the convertible debentures.

Finance costs for the fourth quarter of 2016 decreased by 10% or $5,000 for the same reasons as those for the year ending December 31, 2016.

OTHER OPERATING LOSS

$000s	Year Ended December 31, 2016	2015	Change	Quarter Ended December 31, 2016	2015	Change
Foreign exchange loss (income)	7	55		(47)	(42)	
Quality management system	47	-		47	-	
Other loss (income)	10	(13)		4	-	
Plant relocation costs	572	357		155	90	
Recognition of investment tax credits	-	(603)		-	(603)	
	636	(204)	-412%	159	(555)	-129%

During the year ended December 31, 2016, other operating loss increased by $840,000 or 412% from other operating income of $204,000 in 2015 to other operating loss of $636,000.

The increase in the loss is primarily a result of the recognition of an investment tax credit receivable of $603,000 in the fourth quarter of 2015. In 2015, the Company determined there was reasonable assurance, based on estimated future taxable income, that the previously unrecognized investment tax credits would be realized and therefore recorded an investment tax credit receivable relating to its qualifying expenditures for scientific research and experimental development costs. As the tax credits had been earned and claimed in prior periods, the offset was recorded against other operating loss instead of against related expenditures. In fiscal 2016, consistent with the Company's accounting policy, the investment tax credits that were claimed in the year were recognized against the related expenditures.

The increase in other operating loss was also due to an increase in plant relocation costs of $215,000 compared to the prior period. 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. In the year ended December 31, 2016, these costs are higher than that of the comparative period primarily because the Company is now paying additional rent for a 10,000 square foot expansion of the new facility.

During the fourth quarter of 2016, the Company commenced a project to implement an improved quality management system. The new system will be designed to focus policies towards consistently meeting or exceeding customer requirements and will also be aligned with the Company's strategic goal of transitioning to nutraceutical and pharmaceutical markets. Project expenditures of $47,000 were incurred in fiscal 2016 and are anticipated to continue through fiscal 2017.

The Company's foreign exchange losses and gains are primarily due to the translation of US dollar denominated accounts receivable, accounts payable, and deferred revenue balances, and from the timing of the realization of these balances. Foreign exchange will fluctuate between the quarters due to fluctuations between the US dollar and the Canadian dollar. The current year loss was partially offset by the realization of a $44,000 gain (2015 - $65,000 loss) from the translation of the Company's Euro denominated debt due to a weaker Euro at December 31, 2016 compared with December 31, 2015.

DEPRECIATION AND AMORTIZATION EXPENSE

In the year ended December 31, 2016, the total depreciation and amortization expense of $359,000 (2015 - $392,000) was allocated as follows: $141,000 to general and administration expense (2015 - $177,000), $55,000 to inventory (2015 - $50,000), and $163,000 (2015 - $165,000) to cost of goods sold. The expense is slightly lower than the prior year as the depreciable base of manufacturing equipment currently in use and assets used in the corporate head office is lower than the prior year.

During the year ended December 31, 2016, the Company revised the useful life estimate of the leasehold improvements from the term of the lease to the term of the lease plus the renewal option and is applying the change prospectively. This change in estimate contributed to the decreased amortization expense by approximately $11,000 during the year.

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	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues	2,425	3,018	4,168	4,064	3,435	3,079	2,439	1,714
Net income (loss)	126	645	1,636	1,213	3,452	1,006	658	(194)
Basic net income (loss) per common share	0.002	0.009	0.026	0.019	0.056	0.016	0.011	(0.003)
Diluted net income (loss) per common share	0.002	0.008	0.025	0.018	0.052	0.016	0.010	(0.003)

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.

The significant increase to net income in the fourth quarter of 2015 relates to the recognition of net deferred tax assets of $1,147,000 and an investment tax credit receivable of $603,000. Management assessed that it was probable that sufficient taxable income would be available in the foreseeable future to realize these assets.

Liquidity and Capital Resources

CAPITAL EMPLOYED

$000s	December 31, 2016	December 31, 2015
Non-current assets	14,998	11,857
Current assets	11,394	3,846
Current liabilities	(2,534)	(5,203)
Total assets less current liabilities	23,858	10,500
Non-current liabilities	1,457	2,624
Shareholders' equity	22,401	7,876
Total capital employed	23,858	10,500

Non-current assets increased by $3,141,000 primarily due to an acquisition of $4,813,000 of property and equipment net of grants offset by a depreciation provision of $359,000, a $2,000 decrease in deposits held, and a reduction of deferred tax assets of $1,194,000 largely due to the utilization of deferred tax assets against estimated taxable income during the period offset by the recognition of tax benefits relating to share issuance costs incurred. The decrease was also attributable to a net decrease in the investment tax credit receivable of $116,000 which related to the utilization of investment tax credits against current income taxes payable offset by the recognition of new investment tax credits from a scientific research and development claim.

Current assets increased by $7,548,000. Cash increased by $7,469,000 primarily due to the closing of a private placement during the year, trade and other receivables increased by $25,000, and prepaid expenses and deposits increased by $113,000 primarily due to deposits made on a new ethanol recycling system. These increases were offset by a decrease in inventories of $59,000.

Current liabilities totaling $2,534,000 decreased by the net amount of $2,669,000 primarily due to the recognition of $683,000 of deferred revenue, a decrease in trade payables and accrued liabilities of $1,037,000, a decrease in current income taxes payable of $95,000, and a decrease in convertible debentures of $872,000 (net of accretion and transaction costs) which were converted into equity. These decreases were offset by an increase in the current portion of long-term debt of $18,000.

Non-current liabilities totaling $1,457,000 decreased by the net amount of $1,167,000 mostly due to the repayment of long-term debt of $1,021,000, repayment of the CAAP loan net of accretion of $34,000, and the reclassification of deferred tax liability against deferred tax assets in the amount of $112,000.

Equity of $22,401,000 at December 31, 2016 increased by $14,525,000 from equity of $7,876,000 at December 31, 2015 primarily due to closing a $10,000,000 private placement during the period which was offset by share issuance costs net of tax of $645,000, the recognition of net income of $3,620,000 for the year ended December 31, 2016, the recognition of share-based compensation of $145,000, the conversion of $960,000 of convertible debentures, and an increase from the exercise of stock options and warrants of $445,000.

NET DEBT

$000s	December 31, 2016	December 31, 2015
Cash and cash equivalents, net of restricted cash	8,839	1,381
Current financial liabilities*	2,044	3,935
Non-current financial liabilities*	1,457	2,513
Total financial liabilities	3,501	6,448
NET DEBT	(5,338)	5,067

**Current and non-current financial liabilities include accounts payable and accrued liabilities, convertible debentures, current and non-current portion of long-term debt, and current and non-current portion of CAAP loan.*

As of December 31, 2016, the Company is no longer in a net debt position. The net improvement of $10,405,000 from a net debt position of $5,067,000 to a net worth position of $5,338,000 was primarily due to the closing of an equity private placement during the year. As a result of the offering, the exercise of additional stock options and warrants, and continued cash flows from operations, non-restricted cash and cash equivalents increased by $7,458,000 and $1,037,000 of accounts payable and accrued liabilities was repaid. The net improvement was also due to a reduction in long-term debt from repayments of $977,000 and a $44,000 foreign exchange adjustment partially offset by the amortization of loan transaction fees of $18,000, an $84,000 repayment of the CAAP loan partially offset by accretion of $50,000, and the conversion of $960,000 convertible debentures into equity partially offset by accretion and amortization of transaction costs in the amount of $88,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the years ended December 31, 2016 and 2015.

	Year Ended Ended December 31,		Quarter Ended Ended December 31,	
$000s	2016	2015	2016	2015
Sources of funds:				
Funds generated from operations (cash flow)	5,594	5,068	501	2,641
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	-	728	-	364
Grant used for capital assets	196	80	178	-
Share issuance	10,445	86	260	29
Convertible debentures	-	960	-	-
Long-term debt	-	900	-	-
	16,235	7,822	939	3,034
Uses of funds:				
Purchase of property and equipment	(2,268)	(1,505)	(440)	(388)
Purchase of leasehold improvements	(2,576)	(2,701)	(115)	(1,240)
Employee future benefits obligation repayment	-	(127)	-	-
Changes in non-cash working capital items relating to operating activities	(643)	(863)	184	(155)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	(1,131)	-	(288)	-
Interest paid	(203)	(223)	(45)	(59)
Share issuance costs	(884)	-	-	-
Repayment of royalty financial liability	-	(43)	-	-
Transaction costs	-	(29)	-	-
Repayable CAAP funding	(84)	(84)	(84)	(84)
Repayment of long-term debt	(977)	(839)	(247)	(238)
	(8,766)	(6,414)	(1,035)	(2,164)
Net change in cash flows	7,469	1,408	(96)	870

Net change in cash flow was an increase of $7,469,000 during the year ended December 31, 2016 in comparison with an increase of $1,408,000 for the same period in 2015. The significant increase in cash flow was primarily due to the closing of a private placement in July 2016 which resulted in net cash proceeds to the Company of $9,116,000, an increase in stock options and warrants exercised in 2016 compared to the prior year of $359,000 and due to the Company generating more funds from operations during the year, $5,594,000 compared to $5,068,000 generated in the comparative year. These increases were offset by a significant repayment of accounts payable and accrued liabilities and a larger investment on the new manufacturing facility and capital assets relating to enabling technologies during the current year.

In July 2016, pursuant to a brokered private placement, the Company issued 9,433,962 units (each a "Unit") at $1.06 per Unit for aggregate proceeds of $10,000,000. Each Unit consisted of one common share (each a "Purchased Share") and one-half of one common share purchase warrant (each a "Warrant"). Each whole Warrant entitles the holder thereof to acquire one additional common share (each a "Warrant Share") at an exercise price of $1.50 for a period of 24 months following the closing of each tranche of the offering.

Echelon Wealth Partners Inc. ("Echelon") acted as sole agent in connection with the offering. The Company paid Echelon a cash commission of $700,000 representing 7% of the gross proceeds raised. Echelon also received 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 Echelon 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. Each whole Broker Warrant entitles Echelon to acquire one additional common share (each a "Broker Warrant Share") at an exercise price of $1.50 for a period of 24 months following the closing of each tranche of the offering.

With the successful closing of the equity financing in July 2016, the Company now has a positive working capital balance of $8,860,000 at December 31, 2016. Based on current plans, the Company estimates that it has sufficient capital necessary to complete final commissioning activities and validation trials at the newly completed manufacturing facility, to complete the purchase and installation of an ethanol recovery system which is expected to improve the Company's manufacturing process, and the capital necessary to proceed with previously disclosed research and development projects and upcoming clinical trials.

The Company also estimates that the cash flows generated by its existing operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, maintain capital investment, and service debt needs.

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

Total common shares issued and outstanding as at April 5, 2017 were 75,210,225 (April 13, 2016 – 62,635,821). In addition, 2,485,302 stock options, 4,294,480 warrants, and 660,377 broker unit warrants as at April 5, 2017 (April 13, 2016 – 3,401,667 stock options) were outstanding that are potentially convertible into an equal number of common shares at various prices.

GRANT FUNDING

a) The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the years from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to $671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended one year to September 30, 2013. All amounts claimed under the program are repayable interest free over eight years beginning in 2014. The Company received or recorded as receivable funding of $671,068 to December 31, 2013 under this program and no further funds are expected.

b) During the year ended December 31, 2011, the Company entered into a Contribution Agreement with Alberta Innovates Bio Solutions (AI-Bio Solutions) for a non-repayable grant contribution totaling up to $1,600,000 towards the construction of a new bio-processing facility and subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received $750,000 in 2011, and received $690,000 in 2013. A final payment of $160,000 was received in 2016 and has been recorded as a reduction of capitalized expenditures. The project has been completed at December 31, 2016.

c) During the year ended December 31, 2013, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding in an amount up to $673,000. During the year ended December 31, 2016, the Company received or recorded as receivable the amount of $Nil (2015 - $79,640) of which $Nil (2015 - $79,640) was recorded as a reduction of capitalized expenditures. The project was completed during the year ended December 31, 2015.

d) During the year ended December 31, 2014, the Company entered into a non-repayable grant agreement with AI-Bio Solutions to provide funding of up to $198,000 for certain research activities. During the year ended December 31, 2016, the Company received $89,100 (2015 - $Nil). An amount of $89,100 (2015 - $66,983) was expended on the research project. The Company anticipates receiving a final payment of $19,800 in 2017.

e) During the year ended December 31, 2014, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $52,500 for certain research activities. During the year ended December 31, 2016, the Company received or recorded as a receivable $Nil (2015 - $8,443) which has been recorded as a reduction of research and development activities. The project was completed during the year ended December 31, 2015.

f) During the year ended December 31, 2015, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $52,000 for certain research activities. During the year ended December 31, 2016, the Company received or recorded as a receivable $5,791 (2015 - $14,083) which has been recorded as a reduction of research and development activities. The project has been completed at December 31, 2016.

g) During the year ended December 31, 2015, the Company entered into a contribution agreement with AI-Bio Solutions for a non-repayable funding contribution of $800,000 to implement the scale-up of the Company's Enabling Pressurized Gas Expanded (PGX) Technology. During the year ended December 31, 2015, the Company received $300,000 and the balance was recorded as deferred revenue at December 31, 2015. During the year ended December 31, 2016, the Company recognized $17,572 as a reduction of capital expenditures and the balance of $282,428 remains recorded as deferred revenue at December 31, 2016. The Company anticipates receiving an additional $500,000 in 2017.

h) During the year ended December 31, 2015, the Company entered into a contribution agreement with Industrial Research Assistance Program (IRAP) for non-repayable funding of up to a maximum of $350,000 for costs incurred on the demonstration and testing of the Company's PGX Technology. During the year ended December 31, 2016, the Company received or recorded as a receivable $261,813 (2015 - $54,234) which has been recorded as a reduction of research and project development expenses. The Company anticipates receiving approximately $33,000 in 2017.

i) During the year ended December 31, 2016, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $33,000 for certain research activities. During the year ended December 31, 2016, the Company received $7,594 which has been recorded as a reduction of research and development activities. The Company will receive an additional $9,623 in 2017 and the project will be completed.

j) During the year ended December 31, 2016, the Company entered into a contribution agreement with the German-Canadian Centre for Innovation and Research to provide a non-repayable funding contribution of up to $247,856 for the advancement of the Company's PGX Technology. During the year ended December 31, 2016, the Company received $50,000 and recognized $2,625 as a reduction of research and development expenditures and $19,038 as a reduction of capital expenditures. The balance was recorded as deferred revenue at December 31, 2016. The Company anticipates receiving approximately $94,000 in 2017 and $104,000 in 2018.

Related Party Transactions

During the year ended December 31, 2016, $6,000 (2015 - $5,441) of interest was earned by a company controlled by an officer and by a close family member of a director from their $75,000 (2015 - $75,000) investments in the convertible debenture financing.

During the year ended December 31, 2016, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $750,000 (2015 – $586,000) and share-based payments expense for key management personnel was $74,000 (2015 - $327,000).

The amount payable to directors at December 31, 2016 was $40,000 (2015 - $40,000). Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities at December 31, 2016 was $150,000 (2015 - $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, 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.

Outlook

We are once again very pleased with Ceapro's performance in 2016 with a historic record full year over year increase of 28.2% in sales. Ceapro's balance sheet shows a very significant improvement with a positive equity situation including a retained earnings position of $3,919,200 as of December 31, 2016, compared to a deficit of $59,200 as of December 31, 2015.

The renewal of a long-term agreement with our major distributor Symrise AG has greatly contributed to Ceapro's exceptional results in 2016. We expect our base business in cosmeceuticals to remain very solid over the next 12 months. The foreseen continued strength of the US dollar should also be a contributing positive factor to continue to secure our base business in 2017.

While we are finalizing the commissioning of the extraction/fractionation part of the new production area of the Edmonton based facility, we are pursuing the transition to nutraceuticals and pharmaceuticals by increasing our investments for the clinical development programs with our value drivers' beta glucan and avenanthramides to be tested respectively as cholesterol reducer and anti-inflammatory products.

Further, we will actively pursue over the next twelve months an extensive research program with our proprietary PGX platform technology for which we have the worldwide rights for all industrial applications.

We are committed to remain focused on executing our strategic imperatives for growth that will drive significant value to all of our shareholders in the near, mid and long term.

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.

Consolidated Financial Statements for the Years Ended December 31, 2016 & 2015

Ceapro Inc.

Management's Report

To the Shareholders of **Ceapro Inc.,**

The accompanying consolidated financial statements of Ceapro Inc. (the "Company"), and all information presented in this report, are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards. The consolidated financial statements include some amounts that are based on the best estimates and judgments of Management. Financial information used elsewhere in the report is consistent with that in the consolidated financial statements.

To further the integrity and objectivity of data in the consolidated financial statements, Management of the Company has developed and maintains a system of internal controls, which Management believes will provide reasonable assurance that financial records are reliable and form a proper basis for preparation of consolidated financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in the report principally through its Audit Committee. The Audit Committee is appointed by the Board, and all of its members are outside and unrelated Directors. The Committee meets periodically with Management and the external auditors to discuss internal controls over the financial reporting process and financial reporting issues, to make certain that each party is properly discharging its responsibilities, and to review quarterly reports, the annual report, the annual consolidated financial statements, management discussion and analysis, and the external auditor's report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Company's auditors have full access to the Audit Committee, with and without Management being present.

The consolidated financial statements have been audited by the Company's auditors, Grant Thornton LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

Sincerely,

SIGNED "Gilles Gagnon"
President and Chief Executive Officer

SIGNED "Stacy Prefontaine"
Chief Financial Officer

April 5, 2017

Independent Auditor's Report

Grant Thornton LLP
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To the Shareholders of
Ceapro Inc.

We have audited the accompanying consolidated financial statements of Ceapro Inc., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, and the consolidated statements of net income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2016 and December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ceapro Inc. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

Edmonton, Canada

April 5, 2017

Grant Thornton LLP

Chartered Professional Accountants

CEAPRO INC.

Consolidated Balance Sheets

	December 31, 2016	December 31, 2015
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	9,150,035	1,681,125
Trade receivables	566,024	538,995
Other receivables	122,411	124,132
Inventories (note 4)	1,183,428	1,242,417
Prepaid expenses and deposits	371,950	259,560
	11,393,848	3,846,229
Non-Current Assets		
Investment tax credits receivable	487,339	603,302
Deposits	90,986	93,264
Licences (note 5)	30,366	33,329
Property and equipment (note 6)	14,324,887	9,868,676
Deferred tax assets (note 17 (b))	64,208	1,258,674
	14,997,786	11,857,245
TOTAL ASSETS	26,391,634	15,703,474
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	969,234	2,005,611
Deferred revenue (note 10)	489,613	1,172,198
Current portion of long-term debt (note 7)	1,002,246	984,318
Convertible debentures (note 8)	-	872,355
Current portion of CAAP loan (note 12)	72,942	72,942
Income tax payable	-	95,180
	2,534,035	5,202,604
Non-Current Liabilities		
Long-term debt (note 7)	1,255,658	2,277,186
CAAP loan (note 12)	201,233	235,529
Deferred tax liabilities (note 17 (b))	-	111,621
	1,456,891	2,624,336
TOTAL LIABILITIES	3,990,926	7,826,940
Equity		
Share capital (note 11 (b))	14,859,136	6,800,018
Equity component of convertible debentures (note 8)	-	106,200
Contributed surplus (note 11 (f))	3,874,725	1,029,564
Retained earnings (deficit)	3,666,847	(59,248)
	22,400,708	7,876,534
TOTAL LIABILITIES AND EQUITY	26,391,634	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 and Comprehensive Income

Year Ended December 31,	2016 $	2015 $
Revenue (note 18)	13,673,962	10,667,442
Cost of goods sold	4,321,140	3,638,845
Gross margin	9,352,822	7,028,597
Research and product development	919,121	625,214
General and administration	2,187,181	2,519,119
Sales and marketing	4,328	7,624
Finance costs (note 16)	242,862	246,586
Income from operations	5,999,330	3,630,054
Other operating (loss) income (note 15)	(636,053)	203,974
Income before tax	5,363,277	3,834,028
Income taxes		
Current tax expense	(421,916)	(95,180)
Deferred tax (expense) recovery	(1,321,466)	1,183,303
Income tax (expense) recovery	(1,743,382)	1,088,123
Total comprehensive income for the period	3,619,895	4,922,151
Net income per common share (note 25):		
Basic	0.05	0.08
Diluted	0.05	0.08
Weighted average number of common shares outstanding (note 25):		
Basic	67,684,793	61,804,259
Diluted	71,329,178	65,200,006

See accompanying notes

CEAPRO INC.
Consolidated Statements of Changes in Equity

	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
Issuance of common share units (note 11 (b))	7,944,661	2,055,339	-	-	-	10,000,000
Common share issuance costs, net of tax of $238,621 (note 11 (b))	(1,515,413)	870,253	-	-	-	(645,160)
Share-based payments	-	144,958	-	-	-	144,958
Stock options exercised	333,999	(148,212)	-	-	-	185,787
Warrants exercised	335,927	(77,177)	-	-	-	258,750
Conversion of debentures (notes 8 & 11(b))	959,944	-	(106,200)	106,200	-	959,944
Net income for the year	-	-	-	3,619,895	-	3,619,895
Balance December 31, 2016	14,859,136	3,874,725	-	3,666,847	-	22,400,708
Balance December 31, 2014	6,565,927	507,505	-	(4,964,483)	(16,916)	2,092,033
Share-based payments	-	580,299	-	-	-	580,299
Stock options exercised	143,823	(58,240)	-	-	-	85,583
Shares issued for settlement of debt (note 11 (b))	90,268	-	-	-	-	90,268
Convertible debentures, net of tax of $36,250 (note 8)	-	-	106,200	-	-	106,200
Future benefit obligation	-	-	-	(16,916)	16,916	-
Net income for the year	-	-	-	4,922,151	-	4,922,151
Balance December 31, 2015	6,800,018	1,029,564	106,200	(59,248)	-	7,876,534

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows

Year Ended December 31,	2016 $	2015 $
OPERATING ACTIVITIES		
Net income for the year	3,619,895	4,922,151
Adjustments for items not involving cash		
Finance costs	37,585	52,778
Transaction costs	25,530	24,629
Depreciation and amortization	359,452	392,317
Unrealized foreign exchange (gain) loss on long-term debt	(44,315)	65,228
Accretion	129,747	119,179
Deferred tax expense (recovery)	1,321,466	(1,088,123)
Share-based payments	144,958	580,299
Net income for the year adjusted for non-cash items	5,594,318	5,068,458
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(27,029)	(115,428)
Other receivables	1,721	86,772
Investment tax credits receivable	115,963	(603,302)
Inventories	58,989	(563,152)
Prepaid expenses and deposits	(110,112)	(254,419)
Deferred revenue	(682,585)	1,009,919
Income tax payable	(95,180)	-
Accounts payable and accrued liabilities relating to operating activities	94,790	(423,774)
Total changes in non-cash working capital items	(643,443)	(863,385)
Net income for the period adjusted for non-cash and working capital items	4,950,875	4,205,073
Interest paid	(202,915)	(222,678)
CASH GENERATED FROM OPERATIONS	4,747,960	3,982,395
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,268,292)	(1,504,690)
Purchase of leasehold improvements	(2,575,688)	(2,701,129)
Accounts payable and accrued liabilities relating to investing activities	(1,131,223)	728,509
CASH USED BY INVESTING ACTIVITIES	(5,975,203)	(3,477,310)
FINANCING ACTIVITIES		
Long-term debt	-	900,000
Convertible debentures	-	960,000
Employee future benefits obligation repayment	-	(127,009)
Issuance of common share units	10,000,000	-
Common share issuance costs	(883,781)	-
Stock options exercised	185,787	85,583
Warrants exercised	258,750	-
Transaction costs	-	(28,802)
Repayment of long-term debt	(977,329)	(839,258)
Repayment of CAAP loan	(83,884)	(83,884)
Grant used for purchasing of leaseholds, property and equipment	196,610	79,640
Repayment of royalty financial liability	-	(43,075)
CASH GENERATED FROM FINANCING ACTIVITIES	8,696,153	903,195
Increase in cash and cash equivalents	7,468,910	1,408,280
Cash and cash equivalents at beginning of the year	1,681,125	272,845
Cash and cash equivalents at end of the year	9,150,035	1,681,125

See accompanying notes

Cash and cash equivalents are comprised of $8,832,432 (2015 - $1,374,287) on deposit with financial institutions, $310,765 (2015 - $300,000) restricted cash on deposit with financial institutions (see note 10), and $6,838 (2015 - $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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Board of Directors authorized these consolidated financial statements for issue on April 5, 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.

c) Use of management critical judgments, estimates, and assumptions

The preparation of consolidated financial statements requires management to make critical judgments, estimates, and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses recorded during the reporting period. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management critical judgments

Policies that are critical for the presentation of the financial position and financial performance of the Company and that require judgments are discussed below.

Functional currency

The functional currency for the Company and each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates; the Company has determined the functional currency of each entity to be the Canadian dollar. Such determination involves certain judgments to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

Management estimates and assumptions

Policies that are critical for the presentation of the financial position and financial performance of the Company and that require estimates and assumptions are discussed below.

Provisions

The Company records provision for matters where a legal or constructive obligation exists at the balance sheet date as a result of past events and if a reliable estimate can be made of the obligation. These matters might include restructuring projects, legal matters, disputed issues, indirect taxes, and other items. These obligations may not be settled for a number of years and a reliable estimate has to be made of the likely outcome of each of these matters. These provisions represent our best estimate of the costs that will be incurred, but actual experience may differ from the estimates made and therefore affect future financial results. The effects would be recognized in profit or loss.

Taxation

The Company makes estimates in respect of recognition of the extent of deferred tax liabilities and tax assets. Full provision is made for future and current taxation at the rates of tax prevailing at the year-end unless future rates have been substantively enacted. These calculations represent our best estimate of the costs that will be incurred and recovered, but actual experience may differ from the estimates made and therefore affect future financial results. The effects would be recognized in profit or loss, primarily through taxation.

The Company recognizes the deferred tax benefit related to deferred tax assets to the amount that is probable to be realized. Assessing the recoverability of a portion or all of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred tax assets. Management considers projected future taxable income, the scheduled reversal of deferred tax assets, and tax planning strategies in making this assessment. The amount of the deferred tax asset considered realizable could change materially in future periods.

Investment tax credits

The recognition of investment tax credits relating to the Company's qualifying scientific research and experimental development expenditures requires management to estimate the amount and timing of recovery. The Company has assessed that it is probable that sufficient taxable income will be available to recognize the investment tax credits as recognized at December 31, 2016.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventory includes cost of purchase (purchase price, import duties, transport, handling, and other costs directly attributable to the acquisition of inventories), cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions are made in profit or loss of the current period on any difference between book value and net realizable value.

Property and equipment

The Company provides for depreciation expense on property and equipment at rates designed to amortize the cost of individual items and their material components over their estimated useful lives. Management makes estimates of future useful life based on patterns of benefit consumption and impairments based on past experience and market conditions. Impairment losses and depreciation expenses are presented in profit or loss of the current period.

Licences

The Company amortizes licences over their estimated useful lives. Management makes estimates of future useful life based on patterns of benefit consumption, terms of licence agreements, and impairments based on past experience and market conditions. Impairment losses and depreciation expenses are presented in profit or loss of the current period.

Royalties

When funding from royalty agreements is received, management is required to recognize a liability initially at fair value. To estimate the fair value of the obligation, the Company makes estimates of future cash flows and discounts those cash flows at an estimated prevailing market rate of interest for a similar instrument. Management updates the estimated future cash flows required under the royalty agreements at each reporting date to assess whether the value of obligation should be adjusted. The effects of any change in the obligation are recognized in profit or loss in the current period.

Convertible debentures

The determination of the fair value of the liability component of the convertible debentures requires management to make estimates regarding the interest rate that the Company would have obtained for a similar loan without the conversion feature.

Share-based payments

The fair value of share-based payments is determined using the Black Scholes option pricing model based on estimated fair values at the date of grant. The Black Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the award. Changes in these assumptions can significantly affect the fair value estimate. For more information, see note 11.

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, and all highly liquid short-term investments with original maturities of three months or less.

e) Revenue recognition

Revenues are measured at the fair value of consideration received or receivable. Revenue from product sales is recognized when the products are shipped, as this is when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, the costs incurred or to be incurred can be measured reliably, and the Company maintains no continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

f) Inventories

Inventories are valued at the lower of cost and net realizable value.

Costs of inventory include costs of purchase, costs of conversion, and any other costs incurred in bringing the inventories to their present location and condition. Costs of conversion include direct costs (materials and labour) and indirect costs (fixed and variable production overheads). Fixed overheads are allocated based on normal capacity. Raw materials are assigned costs by using a first-in-first-out cost formula and work-in-progress, and finished goods are assigned costs by using a weighted average cost formula.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

g) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Depreciation methods and rates are calculated as follows:

Manufacturing equipment	10 years straight-line
Office equipment	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	over the term of the lease

Cost for property and equipment includes the purchase price, import duties, non-refundable taxes, and any other costs directly attributable to bringing the asset into the location and condition to be capable of operating. Significant parts of an item of property and equipment with different useful lives are recognized and depreciated separately. Depreciation commences when the asset is available for use. The asset's residual values, useful lives, and method of depreciation are reviewed at each financial year end and adjustments are accounted for prospectively if appropriate. An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of an asset is included in profit or loss in the period the asset is derecognized.

h) Borrowing costs

Borrowing costs are capitalized when such costs are directly attributable to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to prepare for its intended use. All other borrowing costs are recognized as an expense in the period in which they are incurred.

i) Impairment of non-financial assets

The carrying amounts of property and equipment and intangible assets with a finite life are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purpose of measuring recoverable cash flows, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or CGUs). If such indication exists, the Company estimates the recoverable amount of the assets, which is the higher of its fair value less costs of disposal and its value in use. Value in use is estimated as the present value of future cash flows generated by this asset or CGU including eventual disposal. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and an impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimated recoverable amount and the carrying amount that would have been recorded, had no impairment loss been recognized previously. Any such recovery is recognized immediately in profit or loss.

j) Leases

Leases are classified as finance or operating leases. A lease is classified as a finance lease if it effectively transfers substantially the entire risks and rewards incidental to ownership.

At the commencement of the lease, the Company recognizes finance leases as an asset acquisition and an assumption of an obligation in the consolidated balance sheet at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the incremental borrowing rate is used. The interest element of the lease payment is recognized as finance cost over the lease term to achieve a constant periodic rate of interest on the remaining balance of the liability. Any initial direct costs of the lessee are added to the amount recognized as an asset. The useful life and depreciation method is determined on a consistent basis with the Company's policies for property and equipment. The asset is depreciated over the shorter of the lease term and its useful life.

All other leases are accounted for as operating leases, wherein payments are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized in profit or loss on a straight-line basis as an integral part of the total lease expense.

k) Intangible assets

Licences

Licences are recorded at cost and are amortized straight-line over the life of the licence.

Research and product development expenditures

Research costs are expensed when incurred. Product development costs are also expensed when incurred unless the Company can demonstrate the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
(b) its intention to complete the intangible asset and use or sell it;
(c) its ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
(e) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset;
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Costs are reduced by government grants and investment tax credits where applicable.

Following initial capitalization of product development expenditures, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses. Amortization commences when product development is completed and the asset is available for use. It is amortized over the period of expected future economic benefit. The expected lives of assets are reviewed on an annual basis and if necessary, changes in useful lives are accounted for prospectively.

l) Foreign currency translation

The Canadian dollar is the functional and presentation currency of the Company and each of the Company's subsidiaries.

Foreign currency monetary assets and liabilities of the Company and its subsidiaries are translated using the period end closing rate; and non-monetary assets and liabilities, measured at historic cost, are translated at the rate of exchange at the date of the transaction. Foreign currency transactions are translated at the spot exchange rate which is in effect at the date of the transaction. Foreign currency gains or losses arising on translation are included in other operating income (loss) in profit or loss.

m) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case the tax expense is also recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates and laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. Changes to these balances, including changes due to changes in income tax rates, are recognized in profit or loss in the period in which they occur.

Deferred tax assets are recognized to the extent future recovery is probable. Deferred tax assets are reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

n) Government grants

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants are recognized as an offset to expenses over the periods in which the Company recognizes expenses which the grants are intended to compensate. Government grants related to assets are recognized as cost reduction of the assets and reduce depreciation over the expected useful life of the related assets.

o) Investment tax credits

Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided it is probable that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

p) Convertible debentures

The convertible debentures have been separated into liability and equity components for accounting purposes based on the residual value method, whereby the fair value of the liability component is measured first with the residual value being allocated to the conversion feature. The fair value of the liability component is measured using a discount rate for a similar financial instrument without the conversion feature. 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.

q) Income (loss) per common share

Basic income (loss) per common share is computed by dividing the income (loss) by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if the Company's convertible securities and convertible debentures were converted to common shares. Diluted income (loss) per common share is calculated by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effect of all dilutive potential common shares. Convertible securities are converted using the "treasury stock" method and convertible debentures are converted using the "if converted" method. When the Company is in a net loss position, the conversion of convertible securities is considered to be anti-dilutive.

r) Share-based payments

The Company issues equity-settled share-based awards to eligible employees, directors, officers, and consultants under stock option plans that can vest over periods ranging from 2 years to 10 years and have a maximum term of ten years. Share-based payments are accounted for using the fair value method, whereby compensation expense related to these programs is recorded in profit or loss with a corresponding increase to contributed surplus. The fair value of options granted to employees, officers, and directors are determined using Black-Scholes option pricing model at the grant date and expensed over the vesting period. The fair value of options granted to consultants are determined with reference to the fair value of the goods or services received if the fair value of the goods and services received can be measured reliably. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates estimated forfeitures will change. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

s) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

t) Financial Instruments

All financial instruments are measured at initial recognition at fair value plus any transaction costs that are directly attributable to the acquisition of the financial instruments except for transaction costs related to financial instruments classified as at fair value through profit or loss (“FVTPL”) which are expensed as incurred. The Company has designated its financial instruments as follows:

i) Cash and cash equivalents and trade and other receivables have been classified as loans and receivables and are measured at amortized cost using the effective interest method, less any provision for impairment. The Company recognizes purchase or sale of financial assets using trade date accounting.

ii) Accounts payable and accrued liabilities, long-term debt, royalties interest payable, convertible debentures, and the CAAP loan are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

Except for financial assets at fair value through profit or loss, financial assets are assessed for indicators of impairment at the end of each reporting period. A provision for impairment of trade receivables is established when there is objective evidence that the Company may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss within operating costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating costs in profit or loss.

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.

<u>IFRS 9 “Financial instruments”</u>

In July 2014, the IASB released the final version of IFRS 9 “Financial instruments”, representing the completion of its project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. The new standard introduces extensive changes to IAS 39’s guidance on the classification and measurement of financial assets and introduces a new “expected credit loss” model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

IFRS 9 is effective for reporting periods beginning on or after January 1, 2018. The Company's management has not yet assessed the impact of IFRS 9 on these consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers"

In May 2014, the IASB released IFRS 15 "Revenue from Contracts with Customers" which presents new requirements for the recognition of revenue, replacing IAS 18 "Revenue", IAS 11 "Construction contracts", and several revenue related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The Company's management has not yet assessed the impact of IFRS 15 on these consolidated financial statements.

IFRS 16 "Leases"

In January 2016, the IASB released IFRS 16 "Leases" replacing IAS 17 "Leases" and related interpretations. The new standard eliminates the classification of leases as either operating or finance leases and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value.

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Company's management has not yet assessed the impact of IFRS 16 on these consolidated financial statements.

4. INVENTORIES

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

	December 31, 2016 $	December 31, 2015 $
Raw materials	337,491	223,261
Work in progress	269,077	376,938
Finished goods	576,860	642,218
	1,183,428	1,242,417

Inventories expensed to cost of goods sold during the year ended December 31, 2016 are $4,195,127 (December 31, 2015 - $3,567,760).

During the year ended December 31, 2016, the Company decreased the carrying value of inventory by $16,891 (2015 - $10,584) due to estimated realizable values from certain finished goods being lower than cost. The write-down is included in cost of goods sold.

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 20 (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 $2,963 has been included in general and administration for the year ended December 31, 2016 (December 31, 2015 - $2,963) (see note 20 (c)).

Cost of licences	$
Balance - December 31, 2014	44,439
Additions	-
Balance - December 31, 2015	44,439
Additions	-
Balance - December 31, 2016	44,439
Accumulated amortization	
Balance - December 31, 2014	8,147
Amortization	2,963
Balance - December 31, 2015	11,110
Amortization	2,963
Balance - December 31, 2016	14,073
Net book value	
Balance - December 31, 2016	30,366
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, 2014	1,715,775	3,685,245	305,446	400,296	2,598,604	8,705,366
Additions	1,543,015	45,525	-	1,100	2,786,079	4,375,719
Cost reduced by grant	(21,560)	(1,517)	-	-	(56,563)	(79,640)
Disposal	-	-	-	-	-	-
December 31, 2015	3,237,230	3,729,253	305,446	401,396	5,328,120	13,001,445
Additions	1,914,589	437,522	1,880	16,369	2,638,950	5,009,310
Cost reduced by grant	-	(36,610)	-	-	(160,000)	(196,610)
Disposal	-	-	-	-	-	-
December 31, 2016	5,151,819	4,130,165	307,326	417,765	7,807,070	17,814,145
Accumulated Depreciation						
December 31, 2014	-	2,273,654	73,605	260,307	135,849	2,743,415
Additions	-	239,316	46,221	41,050	62,767	389,354
Disposal	-	-	-	-	-	-
December 31, 2015	-	2,512,970	119,826	301,357	198,616	3,132,769
Additions	-	242,134	37,352	31,765	45,238	356,489
Disposal	-	-	-	-	-	-
December 31, 2016	-	2,755,104	157,178	333,122	243,854	3,489,258
Carrying Value						
December 31, 2016	5,151,819	1,375,061	150,148	84,643	7,563,216	14,324,887
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
	$	$	$	$
Year Ended December 31, 2016	162,925	54,870	138,694	356,489
Year Ended December 31, 2015	165,443	49,776	174,135	389,354

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 December 31, 2016, 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 phase.

Included in the additions for equipment not available for use are capitalized borrowing costs of $102,068 and capitalized employee salaries and benefits of $307,004 arising directly from the installation and related construction of the new manufacturing equipment and production process. Included in leasehold improvement additions are capitalized borrowing costs of $63,262 and capitalized employee salaries and benefits of $49,620 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%.

Included in prepaid expenses and deposits are advance payments of $213,926 on the purchase of an ethanol recovery system. The purchase of this specialized equipment will be completed in 2017 for additional payments of $911,795USD. Based on the exchange rate at December 31, 2016, the estimated remaining payments will be approximately $1,225,000 in Canadian dollars.

7. LONG-TERM DEBT

	December 31, 2016 $	December 31, 2015 $
Loan payable secured by a general security agreement, due January, 2018 (a).	212,254	400,847
Loan payable secured by certain intellectual property, due January, 2019 (b).	614,970	951,921
Loan payable secured by a general security agreement, due April, 2019 (c).	787,242	1,101,982
Loan payable secured by a forklift, due June, 2018 (d).	19,139	31,681
Loan payable secured by a general security agreement, due July, 2020 (e).	662,729	831,547
Transaction costs	(38,430)	(56,474)
	2,257,904	3,261,504
Less current portion	1,002,246	984,318
	1,255,658	2,277,186

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

Year Ended December 31, 2016	37,585
Year Ended December 31, 2015	52,778

(a) During the year ended December 31, 2012, a loan from Agriculture Financial Services Corporation ("AFSC") 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 December 31, 2016, the loan balance was 434,025 (December 31, 2015 – 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 December 31, 2016, the monthly payment is $25,365 (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 would mature on December 31, 2016.

The debentures bore 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 had 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 were 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 were redeemable 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 were subject to a four-month hold period from the date of issue.

At the time of issue, the convertible debentures were separated into liability and equity components using the residual method. The fair value of the liability component 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 was subsequently measured at amortized cost using the effective interest rate method and was accreted 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.

Transaction costs of $17,091 were incurred on the issuance of the convertible debentures and were 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 were amortized at the effective interest rate over the term of the convertible debentures and are presented as a finance cost.

During the year ended December 31, 2016, all holders of the convertible debentures elected to convert their debentures into common shares at maturity. Debenture principal of $959,944 was converted into 1,499,911 common shares of the Company (see note 11 (b)) and $56 was paid out in cash on conversion. On extinguishment of the convertible debenture liability, the equity component of $106,200 has been transferred on the Statement of Equity to retained earnings.

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	7,486	-
Accretion of discount on the convertible debentures	80,159	-
Conversion of debentures	(960,000)	(106,200)
December 31, 2016	-	-

9. ROYALTIES PAYABLE

a) In the year ended December 31, 2004, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling $250,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2016, $225,000 (2015 - $225,000) of this commitment has been received and the remaining $25,000 was decommitted. CTI is obligated to pay a royalty (to a maximum of two times the financial assistance received) on sales generated from CeaProve® on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. No royalties have been paid or accrued during the current or prior years. CTI has repaid at December 31, 2016 $nil (2015 - $nil) of this obligation. Upon completion of the repayment of the financial assistance received, CTI will also be required to repay $19,750 advanced during the year ended December 31, 2002. The portion of this obligation paid or accrued as at December 31, 2016 was $nil (2015 - $nil). The potential amount payable per agreement as at December 31, 2016 is $469,750 (2015 - $469,750) (see note 9(d)).

b) In the year ended December 31, 2005, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. (CVP), received a commitment for financial assistance totaling $362,250 for product innovation development in the area of Veterinary Therapeutics and Active Ingredients. As at December 31, 2016, $362,250 (2015 - $362,250) of the commitment has been received. The Company and CVP are obligated to pay a 2.5% royalty to a maximum of $75,000 per quarter (to a maximum of two times the financial assistance received or $724,500) on sales generated from products developed using these funds. The portion of the obligation accrued and paid at December 31, 2016 was $2,040 (2015 - $1,615). The potential amount payable per agreement as at December 31, 2016 is $722,460 (2015 - $722,885) (see note 9(d)).

c) In the year ended December 31, 2005, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling $800,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2016, $510,000 of this commitment has been received (2015 - $510,000) and the remaining $290,000 has been decommitted. CTI is obligated to pay a royalty (to a maximum of one and a half times the financial assistance received or $765,000) on sales of CeaProve® on the following basis: 0% of net sales and net sub-licensing revenues earned until royalty payments have been fully satisfied under the investment agreement in note 9(a), and 5% thereafter until repaid to a maximum of $125,000 per quarter. No royalties have been incurred during the current year. The portion of this obligation paid or accrued as at December 31, 2016 was $nil (2015 - $nil). The potential amount payable per agreement as at December 31, 2016 is $765,000 (2015- $765,000) (see note 9(d)).

d) Potential royalties payable as at December 31, 2016 and 2015:

Notes	Year of agreement	Potential amount payable at December 31, 2016	Potential amount payable at December 31, 2015
9 (a)	2004	469,750	469,750
9 (b)	2005	722,460	722,885
9 (c)	2005	765,000	765,000
Total		**1,957,210**	**1,957,635**

As the funding received in items a), b) and c) above is contingently repayable, it constitutes a liability that is recognized initially at fair value and subsequently at amortized cost using the effective interest method. As the initial fair value was estimated to be negligible, funding received was recorded as revenue and no liability was recorded. Management updates the estimate of future cash flows required under these agreements at each reporting date to assess whether the expected repayments constitute a significant liability and discounts the expected future cash flows at the effective interest rate originally determined at inception. When a liability needs to be recognized, a fair value adjustment is required.

10. 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 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 December 31, 2016 ($300,000 at December 31, 2015) 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. The Company expended $21,663 of the restricted cash on eligible expenses and equipment. The balance of grants received of $28,337 at December 31, 2016 are restricted for eligible project expenditures which have not yet been incurred; therefore, they are presented as deferred revenue.

Deferred revenue also includes $178,848 (2015 - $872,198) for prepaid sales orders from customers.

11. 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

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance at beginning of the year	62,490,821	6,800,018	61,423,948	6,565,927
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	-	-
Stock options exercised	1,275,031	333,999	793,333	143,823
Warrants exercised	172,500	335,927	-	-
Shares issued for settlement of debt	-	-	273,540	90,268
Balance at end of the year	74,872,225	14,859,136	62,490,821	6,800,018

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. This non-cash transaction has been excluded from the Statement of Cash Flows.

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 (see note 8). This non-cash transaction has been excluded from the Statement of Cash Flows.

During the year ended December 31, 2015, the Company issued 273,540 common shares to satisfy $90,268 of outstanding director fees owing to directors which was included in accounts payable and accrued liabilities. This non-cash transaction has been excluded from the Statement of Cash Flows.

c. Warrants

The following table summarizes the continuity of warrants:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Number of Warrants	Weighted Average Exercise Price $	Number of Warrants	Weighted Average Exercise Price $
Balance at beginning of the year	-	-	-	-
Issued with common share units	4,716,980	1.50	-	-
Issued to brokers	660,377	1.06	-	-
Exercised	(172,500)	1.50		
Balance at end of year	5,204,857	1.44	-	-

The following table summarizes information about warrants outstanding:

Exercise Price $	Expiry Date	December 31, 2016 Number of Warrants	December 31, 2015 Number of Warrants
1.50	July 8, 2018	2,514,296	-
1.50	July 13, 2018	2,030,184	-
1.06	July 8, 2018	374,401	-
1.06	July 13, 2018	285,976	-
		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 year ended December 31, 2016, the Company granted 160,000 (December 31, 2015 – 1,210,000) 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 – 1.72%), 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 – 10 years), forfeiture rate was 0% (2015 - 0%), the weighted average share price was $0.42 (2015 – $0.59), the weighted average exercise price was $0.42 (2015 – $0.59), and the expected dividends were nil (2015 - nil). The weighted average grant date fair value of options granted in the year ended December 31, 2016 was $0.28 (2015 - $0.55) per option.

The share-based payments expense recorded during the current year relating to options granted in 2016, 2015, and 2014 was $144,958 (during 2015 relating to options granted in 2015, 2014, and 2013 - $580,299).

A summary of the status of the Company's stock options at December 31, 2016 and December 31, 2015 and changes during the years ended on those dates is as follows:

	Year Ended December 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 year	3,446,667	0.28	3,120,000	0.12
Granted	160,000	0.42	1,210,000	0.59
Exercised	(1,275,031)	0.15	(793,333)	0.11
Forfeited	(68,334)	0.46	(90,000)	0.34
Outstanding at end of year	2,263,302	0.36	3,446,667	0.28
Exercisable at end of year	1,836,634	0.31	2,263,332	0.20

e. Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	December 31, 2016 Number of Options	December 31, 2015 Number of Options
0.25	0.27	2025	8.6	3,334	10,000
0.25	0.27	2025	8.5	3,334	10,000
0.34	0.36	2025	8.3	150,000	150,000
0.47	0.50	2025	8.1	100,000	100,000
0.60	0.64	2025	8.0	811,634	900,000
0.37	0.27	2024	7.9	150,000	150,000
0.13	0.14	2024	7.4	50,000	250,000
0.08	0.10	2024	7	425,000	780,000
0.05	0.10	2023	6.0	310,000	786,667
0.09	0.10	2022	5.5	160,000	160,000
0.22	0.44	2018	1.2	100,000	-
0.11	0.15	2016		-	150,000
			7.1	2,263,302	3,446,667

f. Contributed surplus

	Year Ended December 31, 2016 $	Year Ended December 31, 2015 $
Balance at beginning of the year	1,029,564	507,505
Issuance of common share units (note 11 (b))	2,055,339	-
Common share issuance costs (note 11 (b))	870,253	-
Share-based payments (note 11 (d))	144,958	580,299
Stock options exercised	(148,212)	(58,240)
Warrants exercised	(77,177)	-
Balance at end of the year	3,874,725	1,029,564

12. 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:

Year Ended December 31,	2016 $	2015 $
Opening balance	308,471	338,017
Repayment	(83,884)	(83,884)
Accretion of CAAP loan	49,588	54,338
	274,175	308,471
Less current portion	72,942	72,942
	201,233	235,529

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

13. REVENUE

During the year ended December 31, 2016, the Company had export sales to one major distributor of the Company's products in the aggregate amount of $12,163,108 representing 89% of total revenue (2015 – $9,828,015 (92%)). This major distributor sells to dozens of customers on a worldwide basis.

14. RELATED PARTY TRANSACTIONS

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

Year Ended December 31,	2016 $	2015 $
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	6,000	5,441
Key management salaries, short-term benefits, consulting fees, and director fees	750,221	586,150
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	150,000	40,000
Key management personnel share-based payments	74,277	327,363
Amount payable to directors	39,829	39,979

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.

15. OTHER OPERATING LOSS

Year Ended December 31,	2016 $	2015 $
Foreign exchange loss	6,753	55,061
Other expense (income)	9,617	(12,642)
Quality management system	47,309	-
Plant relocation costs	572,374	356,909
Recognition of investment tax credits	-	(603,302)
	636,053	(203,974)

16. FINANCE COSTS

Year Ended December 31,	2016 $	2015 $
Interest on long-term debt	37,585	52,778
Transaction costs	25,530	24,629
Royalties	50,000	50,000
Accretion of CAAP loan	49,588	54,338
Accretion of convertible debentures	80,159	64,841
	242,862	246,586

17. INCOME TAXES

(a) Income tax expense

Components of income tax expense are:

	December 31, 2016 $	December 31, 2015 $
Current tax expense	421,916	95,180
Deferred tax expense		
Origination and reversal of temporary differences	1,068,834	1,204,923
Change in unrecognized deductible temporary differences	82,550	(2,351,772)
Prior period adjustments	170,082	(36,454)
Income tax expense (recovery)	1,743,382	(1,088,123)

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined Federal and provincial corporate tax rates to income before tax. The rate changed during the year due to changes in the provincial statutory rate. These differences result from the following:

	December 31, 2016 $	December 31, 2015 $
Income before tax	5,363,277	3,834,028
Statutory income tax rate	27.00%	26.01%
Expected income tax	1,448,085	997,231
Increase (decrease) resulting from:		
Non taxable items	121,899	152,871
Change in unrecognized deductible temporary differences	3,316	(2,351,772)
Change in tax rates and rate differences	-	88,445
Other	-	61,556
Prior period adjustments	170,082	(36,454)
Income tax expense (recovery)	1,743,382	(1,088,123)

(b) Recognized deferred tax assets and liabilities

	December 31, 2016 $	December 31, 2015 $
Deferred tax assets are attributable to the following:		
Deferred revenue	7,651	87,136
Finance costs	2,769	15,001
Patents	196,923	194,422
Cumulative eligible capital	79,864	85,876
Other	8,610	22,014
Share issuance costs	190,897	-
Non-capital losses	419,954	1,206,167
Deferred tax assets	906,668	1,610,616
Offset by deferred tax liabilities	(842,460)	(351,942)
Net deferred tax asset	64,208	1,258,674
Deferred tax liabilities are attributable to the following:		
Property and equipment	(654,485)	(197,533)
Convertible debenture	-	(23,664)
CAAP loan and long-term debt	(56,393)	(52,608)
SRED investment tax credits	(131,582)	(189,758)
Deferred tax liabilities	(842,460)	(463,563)
Offset by deferred tax assets	842,460	351,942
Net deferred tax liability	-	(111,621)

(c) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2016 $	December 31, 2015 $
Deductible temporary differences	479,075	624,470
Tax losses	13,298,015	12,846,878
	13,777,090	13,471,348

The non-capital loss carryforwards expire between 2026 and 2036. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

(d) Movement in deferred tax balances

	December 31, 2015 $	Recognized in Profit and (Loss)	Recognized Directly in Equity	December 31, 2016 $
Deferred revenue	87,136	(79,485)	-	7,651
Finance costs	15,001	(12,232)	-	2,769
Patents	194,422	2,500	-	196,922
Cumulative eligible capital	85,876	(6,011)	-	79,865
Other	22,014	(13,404)	-	8,610
Share issuance costs	-	(47,723)	238,620	190,897
Non-capital losses	1,206,167	(786,213)	-	419,954
Property and equipment	(197,533)	(456,952)	-	(654,485)
Convertible debenture	(23,664)	23,664	-	-
CAAP loan	(52,608)	13,389	-	(39,219)
Long-term debt	-	(17,174)	-	(17,174)
SRED ITC's	(189,758)	58,176	-	(131,582)
SRED pool	-	-	-	-
	1,147,053	(1,321,465)	238,620	64,208

	December 31, 2014 $	Recognized in Profit and (Loss)	Recognized Directly in Equity	December 31, 2015 $
Deferred revenue	-	87,136	-	87,136
Finance costs	(3,160)	18,161	-	15,001
Patents	-	194,422	-	194,422
Cumulative eligible capital	-	85,876	-	85,876
Other	-	22,014	-	22,014
Share issuance costs	-	-	-	-
Non-capital losses	-	1,206,167	-	1,206,167
Property and equipment	(121,686)	(75,847)	-	(197,533)
Convertible debenture	-	12,586	(36,250)	(23,664)
CAAP loan	(62,296)	9,688	-	(52,608)
Long-term debt	-	-	-	-
SRED ITC's	-	(189,758)	-	(189,758)
SRED pool	187,142	(187,142)	-	-
	-	1,183,303	(36,250)	1,147,053

18. 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:

Year Ended December 31,	2016 $	2015 $
United States	8,561,265	6,152,203
Germany	4,548,205	3,800,161
China	357,164	597,056
Other	167,980	111,395
Canada	39,348	6,627
	13,673,962	10,667,442

19. EMPLOYEE BENEFITS

Year Ended December 31,	2016 $	2015 $
Employee benefits	2,653,917	2,740,553

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

20. 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.

21. OPERATING LEASES

The Company incurred $945,103 in 2016 (2015 - $692,119) under rental operating leases. These amounts were recorded as follows: general and administration expenses of $88,004 (2015 - $91,623), research and development expenses of $33,442 (2015 - $18,040), cost of goods sold of $273,808 (2015 – $230,711), and other operating loss of $549,849 (2015 - $351,745).

The Company is committed to future annual payments under operating leases for manufacturing facilities, office space, and warehouse. Total lease commitments exclusive of operating costs from January 1, 2017 to March 31, 2025 are disclosed in the table below:

	0 - 1 year $	2 - 5 years $	6 - 12 years	Total $
New facility lease	319,380	1,353,220	1,153,601	2,826,201
Warehouse	58,500	4,875	-	63,375
Total	377,880	1,358,095	1,153,601	2,889,576

22. 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:

	December 31, 2016		December 31, 2015	
	Book value	Fair value	Book value	Fair value
Loans and receivables:				
Cash and cash equivalents	$ 9,150,035	$ 9,150,035	$ 1,681,125	$ 1,681,125
Trade and other receivables	688,435	688,435	663,127	663,127
Other financial liabilities:				
Accounts payable and accrued liabilities	$ 969,234	$ 969,234	$ 2,005,611	$ 2,005,611
Long-term debt	2,257,904	2,257,904	3,261,504	3,261,504
Convertible debentures	-	-	872,355	872,355
CAAP loan	274,175	274,175	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 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 86% of trade receivables are due from two distributors at December 31, 2016 (December 31, 2015 – 94% from two distributors) and all trade receivables at December 31, 2016 and December 31, 2015 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 $9,150,035 at December 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 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	969,234	-	-	-	969,234
Long-term debt	1,068,491	1,218,657	115,383	-	2,402,531
CAAP loan	83,884	167,767	167,767	-	419,418
Total	2,121,609	1,386,424	283,150	-	3,791,183

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%	**+1%**
		Earnings & Equity	**Earnings & Equity**
Financial assets			
Accounts receivable	421,557	4,216	(4,216)
Financial liabilities			
Accounts payable and accrued liabilities	209,359	(2,094)	2,094
Total increase (decrease)		2,122	(2,122)

	Carrying Amount (EURO)	**Foreign Exchange Risk (EURO)**	
		-1%	**+1%**
		Earnings & Equity	**Earnings & Equity**
Financial liabilities			
Long-term debt	434,025	(4,340)	4,340
Total (decrease) increase		(4,340)	4,340

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

2. Interest rate risk

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

23. 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 year ended December 31, 2016.

24. GRANT FUNDING

a) The Company entered into Canadian Agricultural Adaptation Program (“CAAP”) repayable contribution agreements for total possible funding of $1,339,625 receivable over the years from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to $671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended one year to September 30, 2013. All amounts claimed under the program are repayable interest free over eight years beginning in 2014. The Company received or recorded as receivable funding of $671,068 to December 31, 2013 under this program and no further funds are expected (see note 12).

b) During the year ended December 31, 2011, the Company entered into a Contribution Agreement with Alberta Innovates Bio Solutions (AI-Bio Solutions) for a non-repayable grant contribution totaling up to $1,600,000 towards the construction of a new bio-processing facility and subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received $750,000 in 2011, and received $690,000 in 2013. A final payment of $160,000 was received in 2016 and has been recorded as a reduction of capitalized expenditures. The project has been completed at December 31, 2016.

c) During the year ended December 31, 2013, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding in an amount up to $673,000. During the year ended December 31, 2016, the Company received or recorded as receivable the amount of $Nil (2015 - $79,640) of which $Nil (2015 - $79,640) was recorded as a reduction of capitalized expenditures. The project was completed during the year ended December 31, 2015.

d) During the year ended December 31, 2014, the Company entered into a non-repayable grant agreement with AI-Bio Solutions to provide funding of up to $198,000 for certain research activities. During the year ended December 31, 2016, the Company received $89,100 (2015 - $Nil). An amount of $89,100 (2015 - $66,983) was expended on the research project. The Company anticipates receiving a final payment of $19,800 in 2017.

e) During the year ended December 31, 2014, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $52,500 for certain research activities. During the year ended December 31, 2016, the Company received or recorded as a receivable $Nil (2015 - $8,443) which has been recorded as a reduction of research and development activities. The project was completed during the year ended December 31, 2015.

f) During the year ended December 31, 2015, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $52,000 for certain research activities. During the year ended December 31, 2016, the Company received or recorded as a receivable $5,791 (2015 - $14,083) which has been recorded as a reduction of research and development activities. The project has been completed at December 31, 2016.

g) During the year ended December 31, 2015, the Company entered into a contribution agreement with AI-Bio Solutions for a non-repayable funding contribution of $800,000 to implement the scale-up of the Company's Enabling Pressurized Gas Expanded (PGX) Technology. During the year ended December 31, 2015, the Company received $300,000 and the balance was recorded as deferred revenue at December 31, 2015. During the year ended December 31, 2016, the Company recognized $17,572 as a reduction of capital expenditures and the balance of $282,428 remains recorded as deferred revenue at December 31, 2016. The Company anticipates receiving an additional $500,000 in 2017.

h) During the year ended December 31, 2015, the Company entered into a contribution agreement with Industrial Research Assistance Program (IRAP) for non-repayable funding of up to a maximum of $350,000 for costs incurred on the demonstration and testing of the Company's PGX Technology. During the year ended December 31, 2016, the Company received or recorded as a receivable $261,813 (2015 - $54,234) which has been recorded as a reduction of research and project development expenses. The Company anticipates receiving approximately $33,000 in 2017.

i) During the year ended December 31, 2016, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $33,000 for certain research activities. During the year ended December 31, 2016, the Company received $7,594 which has been recorded as a reduction of research and development activities. The Company will receive an additional $9,623 in 2017 and the project will be completed.

j) During the year ended December 31, 2016, the Company entered into a contribution agreement with the German-Canadian Centre for Innovation and Research to provide a non-repayable funding contribution of up to $247,856 for the advancement of the Company's PGX Technology. During the year ended December 31, 2016, the Company received $50,000 and recognized $2,625 as a reduction of research and development expenditures and $19,038 as a reduction of capital expenditures. The balance was recorded as deferred revenue at December 31, 2016. The Company anticipates receiving approximately $94,000 in 2017 and $104,000 in 2018.

25. INCOME PER COMMON SHARE

Year Ended December 31,	2016	2015
Net income for the year for basic and diluted earnings per share calculation	$3,619,895	$4,922,151
Weighted average number of common shares outstanding	67,684,793	61,804,259
Effect of dilutive stock options and warrants	2,192,285	1,895,747
Effect of dilutive convertible debentures	1,452,100	1,500,000
Diluted weighted average number of common shares	71,329,178	65,200,006
Income per share - basic	$0.05	$0.08
Income per share - diluted	$0.05	$0.08

For the year ended December 31, 2016, 4,716,980 warrants outstanding (2015 – 1,163,334 stock options outstanding) have not been included in the diluted income per share calculation because either the options' or warrants' exercise price or the unvested options' exercise price taking into consideration remaining share-based payments were greater than the average market price of the common shares during the year.

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.