



TSX-V: CZO



Q1 2017

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

Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the periods ended March 31, 2017 and 2016, the financial position as at March 31, 2017, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at May 16, 2017. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at March 31, 2017, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2016, 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, 2016. All comparative percentages are between the periods ended March 31, 2017 and 2016 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A offers our assessment of Ceapro's future plans and operations as at May 16, 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 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 91% of trade receivables are due from one distributor at March 31, 2017 (December 31, 2016 – 86% from two distributors) and all trade receivables at March 31, 2017 and December 31, 2016 are current. These main distributors are considered to have good credit quality and historically have a high quality credit rating.

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

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

b) Liquidity risk

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

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

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

c) Market risk

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

1. Foreign currency risk

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

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) and the Euro on the financial assets and liabilities of the Company.

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	834,628	8,346	(8,346)
Financial liabilities			
Accounts payable and accrued liabilities	403,119	(4,031)	4,031
Total increase (decrease)		4,315	(4,315)

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

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at March 31, 2017.

2. Interest rate risk

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

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 Periods Ended March 31, 2017, 2016 and 2015

CONSOLIDATED INCOME STATEMENT

<i>\$000s except per share data</i>	2017	%	2016	%	2015	%
Total revenues	3,183	100%	4,064	100%	1,714	100%
Cost of goods sold	1,472	46%	1,230	30%	922	54%
Gross margin	1,711	54%	2,834	70%	792	46%
Research and product development	596	19%	328	8%	106	6%
General and administration	839	26%	496	12%	802	47%
Sales and marketing	4	0%	2	0%	3	0%
Finance costs	79	2%	98	2%	107	6%
Income from operations	193	6%	1,910	47%	(226)	-13%
Other operating (loss) income	(181)	-6%	(176)	-4%	(4)	0%
Income before tax	12	0%	1,734	43%	(230)	-13%
Income tax (expense) recovery	6	0%	(521)	-13%	36	2%
Net income	18	1%	1,213	30%	(194)	-11%
Basic net income (loss) per common share	0.000		0.019		(0.003)	
Diluted net income (loss) per common share	0.000		0.018		(0.003)	

The following sections discuss the results from operations.

Revenue

\$000s	Three Months Ended March 31,		
	2017	2016	Change
Total revenues	3,183	4,064	-22%

Total sales revenue decreased by approximately \$881,000 from \$4,064,000 in 2016 to \$3,183,000 in 2017.

Product sales volume for the first quarter ended March 31, 2017 was 15% lower than the comparative quarter, however, product sales volume for the first quarter ended March 31, 2016, represented the second highest sales volume in the Company's history. The difference was primarily related to lower sales of beta glucan. This was partially offset by an increase in sales volume for the Company's other value driver avenanthramides.

Revenue was also impacted by a lower U.S dollar relative to the Canadian dollar compared to the comparative quarter which negatively impacted revenue by approximately \$170,000.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

\$000s	Three Months Ended March 31,		
	2017	2016	Change
Sales	3,183	4,064	-22%
Cost of goods sold	1,472	1,230	20%
Gross margin	1,711	2,834	-40%
Gross margin %	54%	70%	

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 three months ended March 31, 2017, cost of goods sold increased by \$242,000 or 20% from \$1,230,000 to \$1,472,000 despite a 22% decrease in sales which has contributed to an overall decrease in the gross margin percentage. The increase in cost of goods sold is related to a number of factors including higher production salaries due to the hiring of additional operators to support the operation of both the existing and new production facility during the validation period and to facilitate training of all operators on the new manufacturing processes. The Company also experienced an increase in the cost of materials primarily due to a significant increase in the cost of feedstock and an increase in overhead expenses primarily due to higher utilities and maintenance costs. These factors contributed to a decrease in the gross margin of 40% from \$2,834,000 in the comparative quarter to \$1,711,000.

The gross margin percentage decreased from 70% in the comparative quarter to 54% in the first quarter of 2017. The decrease was attributable to many factors including the increases in the cost of materials and overhead expenses as noted above. The decrease also relates to higher overhead expenses allocated over lower inventory produced. The lower production was due to required time allocated to commissioning and validation activities despite the hiring of additional operators and due to higher processing required with the new feedstock. The gross margin percentage was also impacted by a different sales mix of products between the current quarter and the comparative quarter as a higher percentage of lower margin products were sold in the first quarter of 2017.

RESEARCH AND PRODUCT DEVELOPMENT

\$000s	Three Months Ended March 31,		
	2017	2016	Change
Salaries and benefits	160	112	
Regulatory and patents	110	82	
Other	326	134	
Total research and product development expenditures	596	328	82%

During the three month period ended March 31, 2017, research and development expenses increased by 82% or \$268,000 in comparison with the same period in 2016. The increase primarily relates to an increase in other research and development costs. While expenditures on the Company's various enabling technologies and research products were consistent with the comparative period projects, the Company also incurred expenditures on the development of the Company's protocol and related mandatory regulatory activities for a pilot clinical study for the development of beta glucan as a cholesterol reducer and commenced a new research program to study the bio activity of the Company's value driver active ingredients.

Research and development expenditures also increased from an increase in salaries and benefits due to additional research and development staff hired throughout 2016. While the Company continued to receive grant funding for some key staff who are working primarily on the Company's Pressurized Gas Expanded (PGX) Technology project, the funding was lower than the comparative period, which also raised the salaries and benefits expense

Regulatory and patent expenses are also higher than the comparative period in 2016 due to patent maintenance on increased patent applications for its enabling technologies.

GENERAL AND ADMINISTRATION

\$000s	Three Months Ended March 31,		
	2017	2016	Change
Salaries and benefits	394	102	
Consulting	120	67	
Board of directors compensation	42	57	
Insurance	37	31	
Accounting and audit fees	33	24	
Rent	22	22	
Public company costs	85	61	
Travel	14	27	
Depreciation	36	38	
Legal	3	21	
Other	53	46	
Total general and administration expenses	839	496	69%

General and administration expense for the three month period ended March 31, 2017 increased by \$343,000 or 69% from the prior year. The increase was primarily due to an increase in salaries and benefits expense related to the granting of stock options in January which resulted in an increase in share-based payments of approximately \$287,000. While the share based payment accounting charge impacts net income it has no impact on cash flows. Also in January, the base compensation of the Chief Executive Officer was reviewed for the first time in over four years to better realign the compensation to market. This resulted in an increase to consulting fees of approximately \$57,000.

Public company costs also increased partially due to an increase in communication costs and partially due to higher regulatory fees resulting from the Company's higher market capitalization.

The overall increase in general and administration expense was offset by lower Board of Director Compensation due to a decrease in share-based payment expense, lower travel fees as attendance at conferences was lower in the first quarter of 2017, and lower legal fees as compared to the prior quarter which was higher because of additional regulatory reporting and costs associated with the amalgamation of the Company's subsidiary in 2016.

SALES AND MARKETING

\$000s	Three Months Ended March 31,		
	2017	2016	Change
Courses, conferences & advertising	3	1	
Other	1	1	
Total sales and marketing	4	2	100%

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	Three Months Ended March 31,		
	2017	2016	Change
Interest on long-term debt	9	11	
Transaction costs	4	6	
Royalties	55	50	
Accretion of CAAP loan	10	12	
Accretion of convertible debenture	-	19	
	78	98	-20%

Finance costs decreased by 20% or \$20,000 in the three month period ended March 31, 2017 from \$98,000 in 2016 to \$78,000.

The decrease primarily relates to a \$19,000 accretion charge for convertible debentures in the comparative period for which there was no charge in the current period as the convertible debentures were all converted to equity during the year ended December 31, 2016.

OTHER OPERATING LOSS

\$000s	Three Months Ended March 31,		
	2017	2016	Change
Foreign exchange loss	11	38	
Quality management system	40	-	
Other loss	1	1	
Plant relocation costs	129	137	
	181	176	3%

During the three month period ended March 31, 2017, other operating loss increased by \$5,000 or 3% from \$176,000 in 2016 to \$181,000.

The increase was primarily due to expenditures on the Company's project to implement an improved quality management system which commenced in the fourth quarter of fiscal 2016. 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 are anticipated to continue throughout the remainder of fiscal 2017.

The overall increase in other operating loss was offset by a slight decrease in plant relocation costs which represent costs incurred relating to the new manufacturing facility that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized.

The overall increase was also offset by a \$27,000 decrease in foreign exchange loss. 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 Company also experiences foreign exchange gains or losses from the translation of the Company's Euro denominated debt. During the three months ended March 31, 2017 the Euro debt translation resulted in a \$3,000 loss compared to a \$15,000 gain in the comparative period.

DEPRECIATION AND AMORTIZATION EXPENSE

In the period ended March 31, 2017, the total depreciation and amortization expense of \$89,000 (2016 - \$94,000) was allocated as follows: \$37,000 to general and administration expense (2016 - \$38,000), \$24,000 to inventory (2016 - \$43,000), and \$28,000 (2016 - \$13,000) 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.

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	2017	2016				2015		
		Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues	3,183	2,425	3,018	4,168	4,064	3,435	3,079	2,439
Net income	18	126	645	1,636	1,213	3,452	1,006	658
Basic net income per common share	0.000	0.002	0.009	0.026	0.019	0.056	0.016	0.011
Diluted net income per common share	0.000	0.002	0.008	0.025	0.018	0.052	0.016	0.010

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.

Net income in the first quarter of 2017 includes a non-cash share-based payment accounting charge of \$307,000 primarily relating to the granting of stock options in January 2017. This accounting charge is considerably higher than in any of the comparable quarters presented as options granted during these periods were not as significant.

Liquidity and Capital Resources

CAPITAL EMPLOYED

<i>\$000s</i>	March 31, 2017	December 31, 2016
Non-current assets	15,674	14,998
Current assets	11,078	11,394
Current liabilities	(2,366)	(2,534)
Total assets less current liabilities	24,386	23,858
Non-current liabilities	1,248	1,457
Shareholders' equity	23,138	22,401
Total capital employed	24,386	23,858

Non-current assets increased by \$676,000 primarily due to the acquisition of \$769,000 of property and equipment net of grants offset by a depreciation provision of \$89,000 and the utilization of \$4,000 of deferred tax assets against taxable income for the period.

Current assets decreased by \$316,000. Cash decreased by \$1,322,000 primarily due to the acquisition of property and equipment which was offset by an increase of \$65,000 in inventories, an increase in trade and other receivables of \$523,000 and an increase in prepaid expenses and deposits of \$418,000 primarily due to an additional deposit made on a new ethanol recycling system.

Current liabilities totaling \$2,366,000 decreased by the net amount of \$168,000 primarily due to the recognition of \$208,000 of deferred revenue and a decrease in the current portion of long-term debt of \$23,000 which was offset by an increase in trade payables and accrued liabilities of \$60,000 and an increase in the current portion of the CAAP loan of \$3,000.

Non-current liabilities totaling \$1,248,000 decreased by the net amount of \$209,000 primarily due to the repayment of long-term debt of \$217,000 offset by an increase in the discounted CAAP loan in the amount of \$8,000.

Equity of \$23,138,000 at March 31, 2017 increased by \$737,000 from equity of \$22,401,000 at December 31, 2016 due to the recognition of net income of \$18,000 for the period ended March 31, 2017, the recognition of share-based compensation of \$307,000, and an increase from the exercise of stock options and warrants of \$413,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended March 31, 2017 and 2016.

\$000s	Three Months Ended March 31,	
	2017	2016
Sources of funds:		
Funds generated from operations (cash flow)	443	1,455
Changes in non-cash working capital items relating to operating activities	-	874
Grant used for capital assets	23	-
Share issuance	413	14
	879	2,343
Uses of funds:		
Purchase of property and equipment	(608)	(476)
Purchase of leasehold improvements	(166)	(1,082)
Deposits relating to investing activities	(421)	-
Changes in non-cash working capital items relating to operating activities	(603)	-
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	(129)	(169)
Interest paid	(27)	(56)
Repayment of long-term debt	(247)	(242)
	(2,201)	(2,025)
Net change in cash flows	(1,322)	318

Net change in cash flow was a decrease of \$1,322,000 during the three month period ended March 31, 2017 in comparison with an increase of \$318,000 for the same period in 2016. The difference primarily relates to comparative period being a record breaking quarter with high margin product sales greater than \$4M and the net change in working capital balances being a positive \$874,000 which generated net cash flows from operations of \$2,329,000 compared to the current quarter where the sales reflected a mix of higher and lower margin products totaling approximately \$3.2M and the net change in working capital balances during the quarter was a negative \$603,000 resulting in net cash flows used in operations of \$160,000. The negative swing in the change in working capital balances partially relates to a timing difference as the Company has trade receivables at March 31, 2017, in excess of \$1.1M which will be received in Q2 2017. The trade receivables at March 31, 2016 were only \$145,000 which were then received in Q2 of 2016.

The net change in cash flows from operations also reflects increased spending on research and development expenses. While the Company views increased spending on research and development projects relating to its enabling technologies, research on product development and new applications for its value driving products as an important expenditure that will support value creation and future revenues and profits, during the research stage it has a negative impact on net income and net cash flows from operations. The Company intends to continue to increase investment in research and development.

Capital expenditures during the three months ended March 31, 2017 were lower than the comparative quarter. In the first three months of 2016 the expenditures related primarily to the construction of the extraction/fractionation part of the new facility. This construction was completed at the end of the third quarter of 2016.

In the first three months of 2017, the property and equipment expenditures related partially to the commissioning and validation of the extraction/fractionation processes and partially to the construction of a pilot scale skid for the Company's PGX technology. The Company also made an additional deposit on the purchase of an ethanol recovery system and incurred leasehold improvement expenditures relating to design work for the construction necessary to install and house the new ethanol recovery system in the additional new facility space obtained in 2016.

The Company has a positive working capital balance of \$8,712,000 at March 31, 2017. 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 May 16, 2017 were 75,350,225 (May 17, 2016 – 62,777,487). In addition, 2,495,302 stock options, 4,244,480 warrants, and 660,377 broker unit warrants as at May 16, 2017 (May 17, 2016 – 3,246,667 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, 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 three months ended March 31, 2017 the Company received \$19,800 (year ended December 31, 2016 - \$89,100). An amount of \$19,800 (year ended December 31, 2016- \$89,100) was expended on the research project. The project has been completed at March 31, 2017.

d) 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.

e) 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 March 31, 2017. The Company anticipates receiving an additional \$500,000 during the remainder of 2017.

f) 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 three months ended March 31, 2017, IRAP and the Company agreed to amend the contribution agreement to increase the non-repayable funding up to a maximum of \$400,000. During the three months ended March 31, 2017, the Company received or recorded as a receivable \$42,816 (2016 - \$62,629) which has been recorded as a reduction of research and project development expenses. The Company anticipates receiving an additional \$40,000 during the remainder of 2017.

g) 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 three months ended March 31, 2017, the Company received \$9,623 (year ended December 31, 2016 - \$7,594) which has been recorded as a reduction of research and development activities. The project has been completed at March 31, 2017.

h) 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. During the three months ended March 31, 2017, the Company recognized \$5,244 as a reduction of research and development expenditures and \$23,093 as a reduction of capital expenditures. The Company anticipates receiving approximately \$94,000 during the remainder of 2017 and \$104,000 in 2018.

Related Party Transactions

During the first quarter ended March 31, 2017, \$Nil (2016 - \$1,000) of interest was earned by a company controlled by an officer and by a close family member of a director from their \$Nil (2016 - \$75,000) investments in the convertible debenture financing.

During the first quarter ended March 31, 2017, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling \$201,000 (2016 - \$142,000) and share-based payments expense for key management personnel was \$305,000 (2016 - \$23,000).

The amount payable to directors at March 31, 2017 was \$40,000 (2016 - \$41,000). Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities at March 31, 2017 was \$40,000 (2016 - \$21,000).

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:

<u>Year</u>	<u>Amount</u>
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

The renewal of a long-term agreement with our major distributor Symrise AG has greatly contributed to Ceapro's exceptional results in 2016. While Q1, 2017 has shown a decrease in sales compared to Q1, 2016, we expect our base business in cosmeceuticals to remain solid over the next 12 months. This base business is the foundation to secure a revenue stream to support necessary significant investments foreseen to pursue the transition to large nutraceuticals and pharmaceuticals markets 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.

Financial Statements

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

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

Financial Statements

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

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

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

Financial Statements

CEAPRO INC.
Consolidated Statements of Net Income and Comprehensive Income
Unaudited

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

See accompanying notes

Financial Statements

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

	Share capital \$	Contributed surplus \$	Equity component of convertible debentures \$	Retained earnings (deficit) \$	Total equity \$
Balance December 31, 2016	14,859,136	3,874,725	-	3,666,847	22,400,708
Share-based payments	-	306,687	-	-	306,687
Stock options exercised	72,520	(34,200)	-	-	38,320
Warrants exercised	487,435	(112,435)	-	-	375,000
Net income for the period	-	-	-	17,768	17,768
Balance March 31, 2017	15,419,091	4,034,777	-	3,684,615	23,138,483
Balance December 31, 2015	6,800,018	1,029,564	106,200	(59,248)	7,876,534
Share-based payments	-	51,663	-	-	51,663
Stock options exercised	24,608	(10,108)	-	-	14,500
Net income for the period	-	-	-	1,213,392	1,213,392
Balance March 31, 2016	6,824,626	1,071,119	106,200	1,154,144	9,156,089

See accompanying notes

Financial Statements

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

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

See accompanying notes

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

1. NATURE OF BUSINESS OPERATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements. The financial statements and notes presented should be read in conjunction with the annual financial statements for the year ended December 31, 2016.

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

b) Basis for presentation

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

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

All intercompany accounts and transactions have been eliminated on consolidation.

3. CHANGES IN ACCOUNTING POLICIES

Future accounting policies not yet adopted

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

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

IFRS 9 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 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 period:

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

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

5. LICENCES

During the year ended December 31, 2014, and as amended on February 2, 2015, the Company entered into a licence agreement with the University of Alberta for the rights to a technology that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients for all industrial applications. The agreement expires after a term of 20 years or after the expiration of the last patent obtained whichever event shall occur first. There is no initial licence fee, but the Company is required to make royalty payments (see note 16 (d)).

During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of \$44,439 to cover previous patent costs and commenced amortizing the licence over 15 years, in April 2012. Amortization of \$740 has been included in general and administration for the period ended March 31, 2017 (March 31, 2016 - \$740) (see note 16 (c)).

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

6. PROPERTY AND EQUIPMENT

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

Depreciation expense is allocated to the following expense categories:

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

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

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

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

7. LONG-TERM DEBT

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

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

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

(a) During the year ended December 31, 2012, a loan from Agriculture Financial Services Corporation (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 March 31, 2017, the loan balance was 383,291 (December 31, 2016 - 434,025) Euro. Monthly blended principal and interest payments in the amount of 17,902 Euro commenced February 1, 2014. Based on the exchange rate at March 31, 2017, the monthly payment is \$25,512 (December 31, 2016 - \$25,365) in Canadian dollars.

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

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

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

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

8. DEFERRED REVENUE

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

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

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

9. SHARE CAPITAL

a. Authorized

- i. Unlimited number of Class A voting common shares. Class A common shares have no par value.
- ii. Unlimited number of Class B non-voting common shares. There are no issued Class B shares.

b. Issued - Class A common shares

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

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

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

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

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

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

c. Warrants

The following table summarizes the continuity of warrants:

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

The following table summarizes information about warrants outstanding:

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

d. Stock options and share-based payments

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

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the three months ended March 31, 2017, the Company granted 400,000 (March 31, 2016 - 160,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock, life of the options, and forfeiture rate. The weighted average risk-free rate used in 2017 was 1.71% (2016 - 0.84%), the weighted average expected volatility was 118% (2016 - 105%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2016 - 5 years), forfeiture rate was 0% (2016 - 0%), the weighted average share price was \$1.75 (2016 - \$0.42), the weighted average exercise price was \$1.75 (2016 - \$0.42), and the expected dividends were nil (2016 - nil). The weighted average grant date fair value of options granted in the three months ended March 31, 2017 was \$1.65 (2016 - \$0.28) per option.

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

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

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

e. Stock options outstanding are as follows:

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

f. Contributed surplus

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

10. CAAP LOAN

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

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

The balance of repayable contribution is derived as follows:

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

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

11. RELATED PARTY TRANSACTIONS

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

Three Months Ended March 31,	2017 \$	2016 \$
Convertible debentures held by a company controlled by an officer and by a close family member of a director	-	75,000
Interest earned on convertible debentures held by a company controlled by an officer and by a close family member of a director	-	1,492
Key management salaries, short-term benefits, consulting fees, and director fees	200,961	141,902
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	40,000	21,000
Key management personnel share-based payments	304,528	23,488
Amount payable to directors	39,594	40,540

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

12. OTHER OPERATING LOSS

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

13. FINANCE COSTS

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

14. SEGMENTED INFORMATION

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

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

15. EMPLOYEE BENEFITS

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

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

16. CONTINGENCIES AND COMMITMENTS

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

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

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

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

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

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

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

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

- (a) a royalty of 3.5% of net sales generated from the field of pharmaceuticals;
- (b) a royalty of 3.0% of net sales generated from the field of nutraceuticals;
- (c) a royalty of 2.75% of net sales generated from the field of cosmetics;
- (d) a royalty of 1.0% of net sales generated from the field of functional foods;
- (e) a royalty of 3.0% of net sales generated from other fields.

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

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

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

17. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

a) Credit risk

Trade and other receivables

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

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$7,828,403 at March 31, 2017 (December 31, 2016 - \$9,150,035) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

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

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

c) Market risk

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

1. Foreign currency risk

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

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) and the Euro on the financial assets and liabilities of the Company.

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	834,628	8,346	(8,346)
Financial liabilities			
Accounts payable and accrued liabilities	403,119	(4,031)	4,031
Total increase (decrease)		4,315	(4,315)

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

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at March 31, 2017.

2. Interest rate risk

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

18. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the period ended March 31, 2017.

19. INCOME PER COMMON SHARE

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

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

For the three month period ended March 31, 2016, 1,215,000 stock options outstanding have not been included in the diluted income per share calculation because either the options 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 period. Interest on the convertible debentures is capitalized as a borrowing cost to a new manufacturing facility under construction and therefore, the dilutive impact from the potential conversion of the convertible debentures is limited only to an increase in the diluted weighted average number of common shares outstanding.