TSXV: CZO
OTCQX: CRPOF

CEAPRO
Nature Enhancing Life®

Annual Report 2022

Table of Contents

Ceapro Inc. is a Canadian biotechnology company involved in the development of proprietary extraction technology and the application of this technology to the production of extracts and "active ingredients" from oats and other renewable plant resources. Ceapro adds further value to its extracts by supporting their use in cosmeceutical, nutraceutical, and therapeutics products for humans and animals. The Company has a broad range of expertise in natural product chemistry, microbiology, biochemistry, immunology and process engineering. These skills merge in the fields of active ingredients, biopharmaceuticals and drug-delivery solutions. For more information on Ceapro, please visit the Company's website at **www.ceapro.com**.

Letter to Shareholders

Dear Fellow Shareholders

We are very proud of achievements made in 2022 across all fronts during a year marked by such uncertainties and economic and operational challenges. Our strong performance in this context was made possible by the hard work from our talented and dedicated team, our constant focus on financial discipline and value creation, and the relationship we have built with our customers and partners. While the signing of a three-year renewable Supply and Distribution Agreement with leading global active ingredients provider, Symrise was a major catalyst to "kick off" this best ever financial performance in the Company's history, several key milestones were reached in 2022 that will propel Ceapro into its next phase of growth as a biopharmaceutical company.

We are committed to building on the following 2022 achievements.

- **Innovation:** advanced our existing product pipeline and developed new powder formulations and chemical complexes using proprietary enabling technologies.

  1. Avenanthramides:

  Clinical trial

  - Completed protocol for Phase 1 safety and tolerability study with healthy volunteers with Montreal Heart Institute (MHI) and submitted to Health Canada which subsequently accepted the expansion to a phase 2a study including patients with mild inflammation.
  - Received approval in December 2022 from Health Canada to commence Phase 1-2a Clinical Trial titled *"**A Double-Blind, Placebo-Controlled, Randomized, Adaptive, First-in-Human Study to Assess Safety, Tolerability, and Pharmacokinetics of Single and Multiple Ascending Oral doses of Avenanthramide**"*. Up to 96 subjects may be included in the study and dosages will escalate from 30 mg to 960 mg according to response. Initial approval received from MHI's Ethics Committee. Phase 1 part of the study expected to be completed by end of 2023.

  Formulation

  - Production and preparation of the selected 30 mg and 240 mg pill formulation of the drug product for a Phase 1 study was scaled up in preparation of the clinical batches that were manufactured, packaged and labeled in June 2022 by Corealis Inc. GMP Manufacturing Services. Stabilities studies ongoing.
  - In planning for an extension into a Phase 2a (subject to Phase 1 outcomes), Ceapro's R&D group manufactured sufficient additional GMP batches of avenanthramides active ingredient powder for a second formulation of avenanthramides pills that will also be manufactured, packaged and labeled by Corealis in 2023.

(Avenanthramides) Malted Technology

- Patent No. 408344 entitled, "*Method for Increasing Concentration of Avenanthramides in Oats*," issued by The Indian Government Patent Office.

2. Oat Beta Glucan:

- Completed research project with Boston-based Angiogenesis Foundation to assess in vivo bioefficacy of oat beta glucan and avenanthramides in angiogenesis, blood vessel repairs, and wounds to assess healing and tissue regeneration in various inflammation-based diseases. Results to be presented on April 29, 2023.

3. Alginate:

- Developed and fine-tuned new PGX-dried chemical complexes mostly using sodium alginate as a carrier. Emphasis put on thin strips of alginate/yeast beta glucan as a potential nutraceutical product with immune boosting properties.
- Published results for PGX-processed alginates in the Journal of CO2 Utilization.
- Announced publication of positive results for PGX-processed alginates impregnated with CoQ10 in *The Journal of Supercritical Fluids*. This publication confirms alginate as a carrier for other bioactives.
- Announced highly positive results for bioavailability studies using alginate and yeast beta glucan (YBG) as carriers for Coenzyme Q10. More specifically, results showed a statistically significant difference ($p<0.02$) between the amount of CoQ10 absorbed from impregnated YBG compared to commercial standard formulations: two times higher absorption than Cyclodextrin/CoQ10 and four times higher absorption than Triolein/CoQ10.

4. Yeast Beta Glucan (YBG):

- Analyzed and screened YBG feedstock from numerous global suppliers to select ideal sources for best possible product.
- Identified process conditions for improving morphology of YBG processed using PGX Technology (PGX-YBG) to boost immunomodulating activity. Progress achieved for the pre-processing of YBG to ensure homogeneous dispersion and batch-to-batch consistency.
- Obtained further evidence confirming that PGX-YBG is suitable for lung inhalation.
- Demonstrated, in vitro, that PGX processed YBG can prevent the activation of macrophages toward a pro-fibrotic phenotype which, according to experts in the field, is seen as a viable therapeutic strategy toward fibrotic disease.
    - PGX-YBG binds to specific receptors (Dectin 1) located on macrophages responsible for the cascade of immunomodulating events when activated.
    - McMaster's research team discovered a new mechanism of action as per PGX-YBG's ability to reprogram macrophages on its own.
    - Following this discovery, announced expansion of collaborative research program with McMaster University to develop an Inhalable Immuno-therapeutic/-prophylactic for COVID-

19-Induced Lung Fibrosis. Dr. Martin Kolb was confirmed as co-lead of this project along with Dr. Ketil Ask and Dr. Todd Hoare. This project is supported by Mitacs.

- Animal studies ongoing. Go-No-Go decision for a Phase 1 trial expected during summer 2023.

5. Technology:

- Pursued technical upgrades of Ceapro's PGX demo plant in Edmonton focused on the commercial scale-up of an impregnation unit to produce chemical complexes with alginate/YBG. Stability studies initiated for these new chemical entities.
- Pursued engineering design for PGX processing commercial scale unit. A decision was made to use a stepwise approach to ensure standardization of product specifications at each scale level from current 10 Liters to 50-100 Liters vessels. Alginate and yeast beta glucan would be the first products to be processed at large-scale level. Given regulatory requirements and to accelerate market entry, yeast beta glucan as a standalone and/or in combination with alginate will be developed at first as a nutraceutical/immune booster.
- Announced the signing of an agreement with the University of Alberta to implement this mid-scale level PGX unit at Agri-Food-Discovery Place. Alginate and YBG will be the first bioactives to be processed at this facility. This work will be conducted with two specialized engineering firms, one from Europe with expertise in pharmaceutical plants and high-pressure equipment and a local engineering firm from Alberta who will facilitate installation and work with regulatory agencies to comply with Canadian regulations and codes. Site and installation of PGX pilot unit expected to be completed by mid-2024.
- Continued projects with University of Alberta and McMaster University for the development of potential delivery systems for multiple applications in healthcare.

- **Bioprocessing Operations:**
  - Ceapro's dedicated production team successfully responded to the growing market demand for the cosmeceutical base business by producing over 300 metric tons of active ingredients in 2022.
  - Successfully passed audits conducted by three major customers at the Edmonton facility.
  - Received renewal of the Site Licence from the Health Canada Natural Product Directorate for a period of two years. This Licence enables the Company to manufacture, package, label, release, and distribute final products.

- **Corporate:**
  - Signed a Supply and Distribution Agreement with Symrise securing the long-term sustainability of Ceapro's base business.
  - Announced appointment of Mr. Ronnie Miller, former long-serving President & CEO of Roche Canada, to the Company's Board of Directors.
  - Appointed Mrs. Genevieve Foster, an accomplished lawyer, Corporate Director of Governance, and businesswoman, to the Company's Board of Directors.
  - Appointed Ms. Sigrun Watson, a recognized commercial leader with over 20 years of experience, as Chief Revenue Officer.

- Conducted a strategic plan exercise based on three overarching Strategic Imperatives to create value for shareholders: (1) Diversify, secure, and accelerate growth; (2) Prepare for commercialization of priority pipeline assets; (3) Align company structure, culture, and processes to support accelerated growth and entry into new markets.

Subsequent to Year End

- Announced that data from research collaboration with the Angiogenesis Foundation will be presented at the 2023 Annual Meeting of the Wound Healing American Society to be held April 26-29, 2023.
- Announced that data from research collaboration with McMaster University will be presented at the 2023 American Thoracic Society (ATS) International Conference to be held May 19-24, 2023.

- **Financial:** fiscal 2022 showed Ceapro's best performance in Company history with record sales of $18.8 Million (10% increase year over year), a net profit after tax of $4.4M (31% increase YOY) and $6.6M of cash generated from operations. Full financial results and explanations are contained in our year-end Financial Statements and accompanying MD&A.

In summary, we are very pleased with 2022 key achievements and initiatives which we fully credit to our remarkable team.

Moving forward, we strongly believe the prospects for the Company remain positive for the upcoming year which should be a pivotal year of proactive transformation focused on successfully positioning Ceapro as a biopharmaceutical company.

We are grateful to our dedicated employees, customers and you, our loyal Shareholders, for your continued support and confidence.

GILLES R. GAGNON, M.Sc., MBA, ICD.D
PRESIDENT AND CEO

RONALD W. MILLER
CHAIR, BOARD OF DIRECTORS

April 19, 2023

Unique Enabling Technologies and Bioprocessing Expertise

Ceapro's unique expertise lies in the identification, extraction, production, and selling of unique active ingredients originating from natural sources.

Over the last decade, our development projects have focused on our expertise in oats and developing new innovative natural health care products to address global needs. Oats have a host of well-documented health care benefits. However, in order to exploit these opportunities, numerous challenges must be overcome, including securing adequate and quality feedstock, developing proper formulations, achieving manufacturing scale-up, and completing scientific testing. Our dedicated team is constantly focused on overcoming these challenges to stay profitable and ahead of competitors by successfully fine-tuning and implementing the following enabling technologies.

Extraction Fractionation Process

This is the current process whereby active ingredients are extracted from an ethanol phase, the resulting liquid formulation being the basis for subsequent development of solid formulations. In order to penetrate the large potential nutraceutical and pharmaceutical markets, we make products in a production site which has been audited by major customers, certified according to international quality systems, and licensed by Health Canada Natural Product Directorate to manufacture, package, label, release, and distribute final products.

Proprietary Drying Technologies

- **Chromatography for High Purity of Avenanthramides**

Based on scientific literature showing that avenanthramides (AVs) offer natural alternatives to treat several inflammation-based diseases, an in-house project was conducted to generate a unique dry powder formulation of avenanthramides as a potential treatment for such diseases. However, AVs being only available at small concentration in oats, a process was established and improved to concentrate and purify them at a larger manufacturing scale to generate enough AVs concentrates required to obtain stability, physical characterization, and clinical data through targeted studies. In 2023, we expect to scale up this process at commercial levels.

Previous clinical trials at the University of Minnesota using Ceapro's purified AVs supported anti-inflammatory claims for avenanthramides as a nutraceutical product and motivated Ceapro to design a phase 1 clinical trial along with experts at Montreal Heart Institute. It also led Ceapro to initiate a study with the Boston-based Angiogenesis Foundation to assess avenanthramides potential in angiogenesis, wound healing, and tissue regeneration. All these efforts will ensure the successful incorporation of highly purified dried AVs powder into new natural based pharmaceutical formulations to treat key inflammation-based diseases.

- **Pressurized Gas eXpanded Technology (PGX)**

The PGX Technology is a patented platform technology that simultaneously purifies, micronizes, dries, and combines aqueous solutions of biopolymers into fine structured open porous materials with unique morphologies using carbon dioxide (CO2) and ethanol at mild temperatures. The resulting matrix has increased surface area that can be loaded with actives using an impregnation technology that was perfected by Ceapro.

In 2022, the PGX Technology was further developed by the PGX team at Ceapro and several collaborations with academia and industry partners. Ceapro's team focused on the development of the two most promising and versatile polymer candidates to date, namely yeast beta glucan (YBG) and alginate (ALG).

YBG is derived from spent brewer's yeast, autolyzed, and pre-processed, followed by PGX processing to form fine particles with a narrow particle size distribution (PSD). On the other hand, the ALG obtained from brown seaweed and processed with PGX Technology can generate very fine fibrils that can be soluble in water when processed as sodium alginate fibrils or non-soluble when cross-linked with calcium to further fine-tune the properties. These products can be effective either as a stand-alone therapeutic and/or as delivery systems for a wide range of potential applications under various forms of administration: topical, oral/sublingual, inhalation.

While the PGX processing equipment at Ceapro was further improved in 2022, the planning for large scale-up of the PGX Technology started almost three years ago (before the pandemic situation) with the purchase by Ceapro of a used larger-scale supercritical plant in Germany. The plant has been dismantled and equipment was then moved to the original manufacturer in Austria. The used equipment has been inspected and assessed to evaluate the required refurbishments and modifications which have been completed in 2022. A decision has been made to install this equipment as part of a PGX-100 pilot plant at Agri Food Discovery Place (AFDP) in Edmonton, Alberta.

Currently Ceapro is finalizing the design of the PGX-100 pilot plant in collaboration with a European specialized engineering firm and equipment manufacturer and with a local Alberta based engineering procurement and contract management firm (EPCM), which can handle the local building modifications, electrical work, and regulatory requirements. This project includes three phases; (1) the design; (2) modifications of the building at AFDP and detailed design and construction of the PGX modular skids; (3) the installation testing and commissioning of the PGX-100 in the AFDP building which is anticipated to occur in the first half of 2024. The PGX-100 pilot plant will be a major step towards commercialization of products coming from the use of the Technology.

The PGX Technology has been licensed from the University of Alberta for all industrial applications. The Technology is patented in the U.S., Canada, Europe, and India.

Healthcare: Our Near-Term and Long-Term Catalysts

Our strategic path is clear: while continuing to grow our customer base and presence in the personal care market, we will explore and validate new product applications for our established value drivers, avenanthramides and oat beta glucan, as well as for new products like alginate and beta glucan from yeast to get into nutraceutical and pharmaceutical markets.

AVENANTHRAMIDES

In addition to cosmetics applications, it has been reported that oral administration of Ceapro's flagship product, avenanthramides, could be beneficial in serious conditions like atherosclerosis, inflammatory bowel syndrome, colon cancer, and joint inflammation. These findings led Ceapro's team to successfully develop avenanthramides as an active pharmaceutical ingredient (API) as powder formulations.

Update and Ceapro's Opportunity

- **Nutraceutical/Functional Food**

Ceapro's pharmaceutical grade powder was used in human bioavailability and bioefficacy studies conducted at the University of Minnesota under the guidance of avenanthramide expert, Dr. Lili Ji. The clinical program assessing anti-inflammatory properties of avenanthramides in exercise-induced inflammation was successfully completed and positive results showing the anti-inflammation properties of avenanthramides were presented at prestigious conferences and published in peer reviewed scientific journals. Data demonstrating the immunoregulatory mechanism of action of avenanthramides even at low doses, clearly support anti-inflammatory claims for avenanthramides as a nutraceutical product and/or as a functional food supplement.

- **Pharmaceutical Program (Anti-Inflammatory Product)**

Positive results obtained from the bioavailability and bioefficacy studies at University of Minnesota paved the way for initiation of clinical trials using high doses of Ceapro's new pharmaceutical grade tablets of avenanthramides to be assessed as a potential treatment for some inflammation-based diseases. A Phase 1-2a protocol, designed with the expert team led by renowned Dr. Jean-Claude Tardif at the Montreal Heart Institute, was approved by Health Canada in December 2022 and is being initiated. Up to 96 patients will be included in that placebo-controlled safety and tolerability study. Part one of the study which will include 72 healthy volunteers distributed in single and multiple ascending doses regimen should be completed by end of year 2023. Should data from this Phase 1 be favorable, 24 additional patients with mild inflammation symptoms will be recruited for efficacy results. Subsequent long-term clinical program would be conducted with a pharmaceutical partner.

Studies were also conducted with Boston based Angiogenesis Foundation. While earlier in vitro results indicated that Ceapro's pharmaceutical grade AVs formulations stimulate the proliferation and migration of vascular endothelial cells in a dose-dependent manner, an in vivo study completed in 2022 confirmed that avenanthramides stimulate the

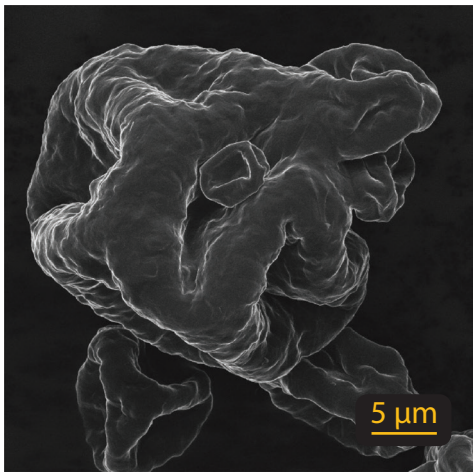
speed and the quality of wound healing. Avenanthramides also suppressed inflammatory cells in the wound healing process. These exciting results will support additional claims for avenanthramides when incorporated into new natural based pharmaceuticals formulations to treat key inflammation-based diseases and for tissue repair purposes.

YEAST BETA GLUCAN (YBG)

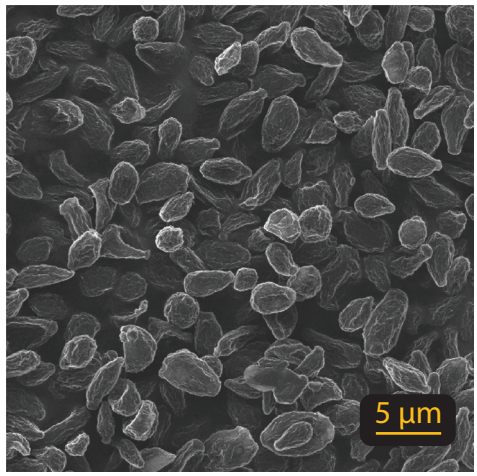
Beta Glucan from yeast is recognized for its immune boosting properties and can be found in many commercial formulations. Most of these formulations are produced using spray dried technologies yielding large size particles under various shapes compared to small and uniform particles obtained with the PGX Technology. Furthermore, as per our research conducted in collaboration with a California based company, some of these formulations contain impurities that may induce some unwanted physiological effects like inflammation instead of preventing the inflammation process as seen with Ceapro's PGX processed yeast beta glucan. In fact, Ceapro's team data analysed, tested, and screened numerous sources of YBG from many global suppliers. While three global suppliers for YBG were shortlisted (from Germany, China, Brazil), one YBG feedstock material clearly outperformed all others in terms of purity, batch-to-batch consistency, heavy metal content, and available certifications (IFS, FSSC 22000, Kosher, Halal, GMO-free).

The retained source of yeast beta glucan was used for both in vitro and in vivo studies showing specificity to Dectin-1 receptors located on macrophages that are involved in the immune and inflammation processes. In addition to specific binding to the receptor, the PGX processed YBG showed up to 5 times more potency than existing formulations suggesting that smaller doses of Ceapro's YBG could be used for similar or better efficacy.

Yeast Beta Glucan



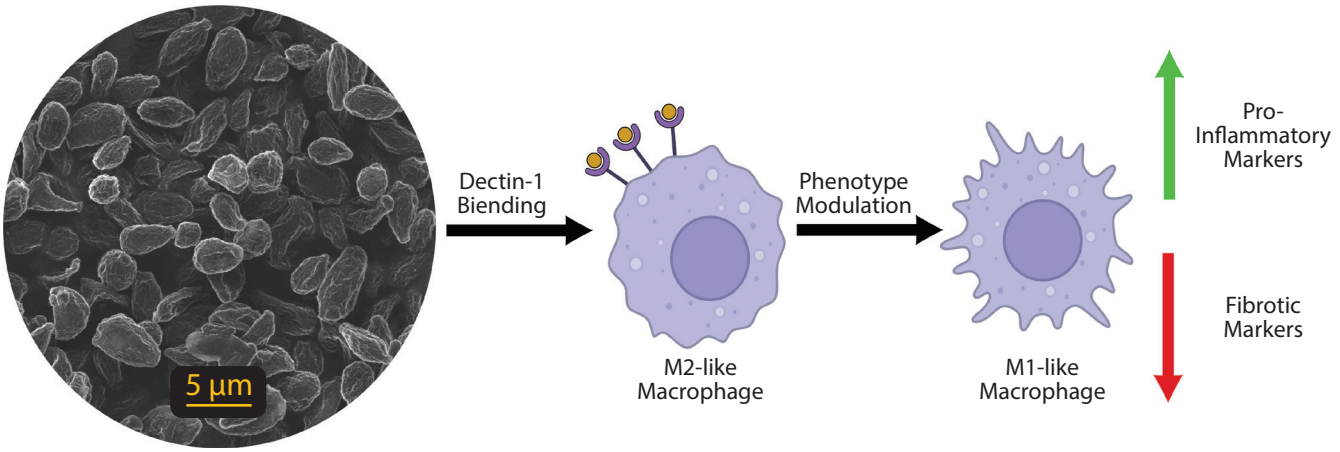
Spray Dried (Current Market Offering)



Ceapro's PGX (Enhanced Alternative)

Update and Ceapro's Opportunity

In addition to screening and testing numerous YBG feedstock materials and generating immune modulating PGX YBG powders, Ceapro's team has been working closely with McMaster University researchers who are assessing the potential of PGX YBG to treat lung fibrosis. This hypothesis, being supported by safety and efficacy results obtained with animals and the size of PGX YBG particles (less than 5 microns), makes them suitable for inhalation. Animal studies were further expanded in 2022 following a major discovery that PGX YBG could reprogram to "normal state" receptors of pro-fibrotic M2-like macrophages involved in the inflammation and fibrosis process. Data from this discovery will be presented at the American Thoracic Society International conference to be held May 19-24, 2023. A Go-No-Go decision will also be made during the summer 2023 for the design of a phase 1 safety and tolerability trial with PGX YBG.



Pro-fibrotic "M2-like" macrophages play a key role in Pulmonary Fibrosis due to their ability to secrete pro-fibrotic cytokines and produce extracellular matrix (ECM). Yeast beta glucan (YBG), a polysaccharide derived from S. cerevisiae, is known to modulate macrophage behavior. YBG binds the Dectin-1 receptor expressed on macrophages and converts pro-fibrotic M2-like macrophages to an anti-fibrotic "M1-like" state.

In addition to developing yeast beta glucan as an immune modulator and an inhalable therapeutic, Ceapro's team is working on the development of novel drug delivery systems focusing specifically on alginates (ALG) and yeast beta glucan (YBG), generating composites and cross-linked polymers with tuneable properties, which can form strips, pads, masks, or fast-dissolving orodispersible films. Over 100 runs have been performed with PGX YBG-ALG on the PGX Demo scale and these new chemical complexes appear to be currently the most promising commercial application from a cost evaluation and market potential perspective. From a commercialisation perspective, it will be developed as an immune-boosting nutraceutical. Exciting results have been obtained with YBG and/or ALG formulations impregnated with CoQ10 showing superior bioavailability data than commercially available CoQ10 products. These results are very "appealing" for potential licensing partners.

Personal Care: Our Base Business

Our strategic path is clear: while continuing to grow our customer base and presence in the personal care market, we will explore and validate new product applications for our established value drivers, avenanthramides and oat beta glucan, as well as for new products like alginate and beta glucan from yeast to get into nutraceutical and pharmaceutical markets.

AVENANTHRAMIDES

Ceapro's flagship product, avenanthramides, is a group of polyphenol compounds found exclusively in oats. This group of molecules work synergistically and represent the active component of oats that provides relief for a host of skin conditions, such as eczema, chicken-pox, and insect bites. Ceapro is the only company in the world producing the only commercial natural avenanthramide product which is featured in several of the best-selling global personal care brands.

Update and Ceapro's Opportunity

In line with our vision to reach out directly to high-end customers with finished products, we are offering a new Juvente line of products containing higher concentrations of our two value drivers avenanthramides and beta glucan.

A pilot project was completed with these formulations in Germany and Japan where they will also be mostly offered through online channels. We also expect to work closely with some major key customers who are looking for second and third generation products to be included in some well-known brands. These high concentration products of both liquid and powder formulations of avenanthramides are produced from our proprietary enabling technologies.

BETA GLUCAN

Ceapro's value driver product, beta glucan, is known as the anti-aging active ingredient included in well-known brands. Studies have shown that beta glucan is highly effective in stimulating collagen synthesis and can play a prominent role in skin restructuring and wound healing. Of all existing beta glucans, the beta glucan extracted from oats is the only one that is water soluble. Ceapro has shown the unusual ability of its oat-based beta glucan to penetrate skin deeply despite its large molecular weight. As a result, the use of oat beta glucan as a potential delivery system has attracted interest from multiple parties looking to improve the delivery of their therapeutic products. The potential to impregnate or encapsulate bioactives into formulations of beta glucan has increased the interest in determining its potential as a delivery platform for cosmeceuticals.

Update and Ceapro's Opportunity

The offering of Juvente^{DC} products containing both our two value drivers avenanthramides and beta glucan is in line with our delivery platform strategic approach. Given significant improvements observed in some subjects suffering from eczema and psoriasis, these observations suggest that beta glucan acts as a carrier to help avenanthramides penetrate deeper to reach the dermis level of the skin where they would exert their beneficial effect.

Based on previous observations and on the successful development of new chemical complexes like oat beta glucan, yeast beta glucan, and alginate impregnated with Co-enzyme Q10 (CoQ10-iBG), and using our PGX technology, we are developing various combinations of bioactive substances, one of them potentially for the treatment of conditions like actinic keratosis.

As Ceapro is looking at the wound healing market, a formal research collaboration with the prestigious Boston-based Angiogenesis Foundation has been established since August 2021. Following preliminary in vitro results indicating that Ceapro's pharmaceutical grade formulations of beta-glucan and avenanthramides stimulate the proliferation and migration of vascular endothelial cells in a dose-dependent manner, a pre-clinical program was completed in 2022 showing exciting results where both avenanthramides and oat beta glucan significantly improve the speed and quality of the healing process, with specific observations that avenanthramides suppressed inflammatory cells and beta glucan induced increased tissue micro vessels and endothelial progenitor cells (stem cells), which is a major discovery in tissue regeneration. These results will support additional claims for the Juvente line of products and further position Ceapro in dermatology.

:: Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the years ended December 31, 2022 and 2021, the financial position as at December 31, 2022, and the outlook of Ceapro Inc. ("Ceapro" and "the Company") based on information available as at April 11, 2023. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2022, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2021, which are prepared in accordance with International Financial Reporting Standards (IFRS), and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2021. All comparative percentages are between the periods ended December 31, 2022 and 2021 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Ceapro's future plans and operations as at April 11, 2023 and contains forward-looking statements. Forward-looking statements and information can generally be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", "plans", or similar terminology. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

VISION, CORE BUSINESS, AND STRATEGY

Ceapro is incorporated under the Canada Business Corporations Act; and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc., are incorporated under the Alberta Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Juvente^{DC} Inc. (Juvente) is a wholly-owned subsidiary incorporated under the Canada Business Corporations Act. Effective December 31, 2021, the Company wound up Ceapro Technology Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc., into the Company and dissolved Ceapro USA Inc.

Ceapro is a growth stage biotechnology company. Our primary business activities relate to the development and commercialization of natural products for personal care, cosmetic, human, and animal health industries using proprietary technology, natural, renewable resources, and developing innovative products, technologies, and delivery systems.

Our products include:

- A commercial line of natural active ingredients, including *beta glucan, avenanthramides (colloidal oat extract*), *oat powder, oat oil*, *oat peptides,* and *lupin peptides,* which are marketed to the personal care, cosmetic, medical, and animal health industries through our distribution partners and direct sales;
- A commercial line of natural anti-aging skincare products, utilizing active ingredients including beta glucan and avenanthramides, which are marketed to the cosmeceuticals market through our wholly-owned subsidiary, Juvente^{DC} Inc.; and
- Veterinary therapeutic products, including an *oat shampoo*, an *ear cleanser,* and a *dermal complex/conditioner*, which are manufactured and marketed to veterinarians in Japan and Asia.

Other products and technologies are currently in the research and development or pre-commercial stage. These technologies include:

- A potential platform using our *beta glucan* formulations to deliver compounds used for treatments in both personal and healthcare sectors;
- A variety of novel enabling technologies including Pressurized Gas eXpanded drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds; and
- The development of new technologies to increase the content of avenanthramides to high levels to enable new innovative products to be introduced to new markets including functional foods, nutraceuticals, and botanical drugs.

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

- Identifying unique plant sources and technologies capable of generating novel active natural products;
- Increasing sales and expanding markets for our current active ingredients;
- Developing and marketing additional high-value proprietary therapeutic natural products;
- Developing and improving manufacturing technologies to ensure efficiencies; and
- Advancing new partnerships and strategic alliances to develop new commercial active ingredients with various formulations to expand our markets.

As a knowledge-based enterprise, we will also expand and strengthen our patent portfolio and build the necessary infrastructure to become a global biopharmaceutical company.

Our business growth depends on our ability to access global markets through distribution partnerships. Our marketing strategy emphasizes providing technical support to our distributors and their customers to maximize the value of our technology and product utilization. Our vision and business strategy are supported by our commitment to the following core values:

- Adding value to all aspects of our business;
- Enhancing the health of humans and animals;
- Discovering and commercializing new, therapeutic natural ingredients and bioprocessing technologies;
- Producing the highest quality work possible in products, science, and business; and
- Developing personnel through guidance, opportunities, and encouragement.

To support these objectives, we believe we have strong intellectual and human capital resources and we are developing a strong base of partnerships and strategic alliances to exploit our technology. The current economic environment provides challenges in obtaining financial resources to fully exploit opportunities. To fund our operations, Ceapro relies upon revenues primarily generated from the sale of active ingredients, and the proceeds of public and private offerings of equity securities, debentures, government grants and loans, and other investment offerings.

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2022, 2021, AND 2020

CONSOLIDATED INCOME STATEMENT

$000s EXCEPT PER SHARE DATA	**2022**	**%**	2021 *Restated*	%	2020	%
Total revenues	**18,840**	**100%**	17,195	100%	15,121	100%
Cost of goods sold	**7,822**	**42%**	6,727	39%	7,499	50%
Gross margin	**11,018**	**58%**	10,468	61%	7,622	50%
Research and product development	**1,789**	**9%**	3,878	23%	1,882	12%
General and administration	**3,700**	**20%**	3,240	19%	3,283	22%
Sales and marketing	**30**	**0%**	47	0%	111	1%
Finance costs	**185**	**1%**	207	1%	231	2%
Income from operations	**5,314**	**28%**	3,096	18%	2,115	14%
Other (income) expenses	**(463)**	**–2%**	(202)	–1%	259	2%
Income before tax	**5,777**	**31%**	3,298	19%	1,856	12%
Income tax expense (benefit)	**1,379**	**7%**	(67)	0%	–	0%
Net income	**4,398**	**23%**	3,365	20%	1,855	12%
Basic net income per common share	**0.06**		0.04		0.02	
Diluted net income per common share	**0.06**		0.04		0.02	

The following sections discuss the consolidated results from operations.

RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

During the year ended December 31, 2022, the Company conducted a detailed evaluation of the manufacturing process of its extraction facility in Edmonton in order to assess the appropriateness of the accounting estimates used to assign the costs of conversion of inventories from the raw materials stage through to the finished goods stage for the valuation of inventories.

Pursuant to the completion of the analysis, the Company has changed its method of assigning the costs of conversion to ensure the valuation of inventory incorporates the costs of conversion more appropriately through the different stages of production for the multiple products produced at the facility. The change will also allow for more appropriate valuation of future products currently under development. In applying the change to the method of assigning conversion costs, the Company has determined that more costs of conversion should have been allocated to the work in progress inventories and less to cost of goods sold at December 31, 2021. As a result, the Company has restated the consolidated financial statements for the year ended December 31, 2021, and the impact of this is an overall increase in the value of inventories at December 31, 2021 in the amount of $679,192, an overall decrease in cost of goods sold in the amount of $778,337, an increase in research and development expense in the amount of $99,145, an associated net increase in income before tax of $679,192, and a reduction of the deferred tax benefit and related deferred tax asset for the year ended December 31, 2021 in the amount of $156,214. The overall increase to net income after tax was $522,978. The change to the method of assigning costs to inventories only impacts the timing of when costs are allocated to inventories and when they are released to cost of goods sold, it is not a reflection of a different amount of costing and therefore there is no impact to cash flows other than the presentation of line items within the cash flow statement. While net income for the year ending December 31, 2021, increased, the impact did not change the calculated and reported $0.04 earnings per share.

The Company has not applied the restatement prior to January 1, 2021, as the transition to the new Edmonton facility was only completed at the end of December 31, 2020. Up to this point, the production of inventories at the Edmonton facility were significantly lower and an appropriate assignment of costs using the new methodology is not material.

REVENUE

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2022**	2021	CHANGE	**2022**	2021	CHANGE
Total revenues	**18,840**	17,195	10%	**3,322**	3,562	–7%

Revenue for the year ended December 31, 2022, increased by approximately $1,645,000 or 10% over the comparative period in 2021. The increase in revenue was partially driven by an overall increase in the sales volumes over the year and partially due to the benefit from increases in sales prices for products sold during the year. The higher sales revenue was also partially due to a higher U.S. dollar relative to the Canadian dollar compared to the prior year which positively impacted revenue by approximately $522,000.

Revenue for the fourth quarter ended December 31, 2022, was lower than the comparative quarter in 2021 by approximately $240,000 or 7%. The decrease was primarily driven by an overall decrease in sales volume of 29% compared to the prior quarter, which was due to lower sales of the Company's flagship products avenanthramides and beta glucan offset by an increase in sales of oat oil. The decrease in revenue from lower sales volumes was slightly offset by the benefit from an increase in sales prices for products sold during the year. The lower sales revenue was also partially offset by a higher U.S. dollar relative to the Canadian dollar compared to the prior quarter which positively impacted revenue by approximately $221,000.

EXPENSES

COST OF GOODS SOLD AND GROSS MARGIN

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2022**	2021 *Restated*	CHANGE	**2022**	2021 *Restated*	CHANGE
Sales	**18,840**	17,195	10%	**3,322**	3,562	–7%
Cost of goods sold	**7,822**	6,727	16%	**2,118**	1,551	37%
Gross margin	**11,018**	10,468	5%	**1,204**	2,011	–40%
Gross margin %	**58%**	61%		**36%**	56%	

Cost of goods sold is comprised of the direct raw materials required for the specific formulation of products, as well as direct labour, quality assurance and control, packaging, transportation costs, plant costs, and amortization on property and equipment.

During the year ended December 31, 2022, revenue increased by approximately 10% and cost of goods sold increased by 16%, this resulted in a decrease in the gross margin percentage from 61% in the prior year to 58% in the current year.

The slight decrease in the margin is made up of several factors for the year ended December 31, 2022. Price increases were experienced throughout the year primarily on the raw materials used to produce avenanthramides, the Company's highest volume sales product. However, production and sale of avenanthramides in the current year used a significant amount of work in progress from the prior year, alleviating some of the impact of inflation that the Company continues to experience, and at the same time, last season's high-quality grain was used in that work in progress, and so the finished goods output from this grain was very high and therefore generated significant production output. The cost benefit of the high production output from the same amount of work in progress was more beneficial than the negative impact from cost increases from other raw materials throughout the first half of the year. As the work in progress that had been manufactured with the higher yielding grain was used up by the third quarter, the work in progress used to produce finished goods throughout the rest of the year did not generate as significant a benefit from high output. Without that

offsetting benefit, the cost of goods sold for the current quarter has started to reflect the increased cost of raw materials. On an overall basis, overhead expenses were only slightly higher than those incurred in the prior year. Another factor impacting the margin is the product mix of sales for the current year where there was a higher percentage of sales of the lower margin product oat oil. The gross margin for the current year was positively impacted by an overall increase in sales prices for most products as well as a beneficial exchange rate which impacted revenues.

During the fourth quarter of 2022, revenue decreased by 7% and cost of sales increased by 37% which resulted in a significant decrease in the gross margin percentage from 56% in the comparative quarter to 36% in the current quarter.

The primary reason for the increase in cost of goods sold and decrease in the margin in the current fourth quarter is due to the very high percentage of oat oil sales in the quarter which is the lowest margin product the Company currently sells. Sales of oat oil in the current quarter increased by 171% compared to the prior quarter and at the same time, sales of the higher margin products were lower compared to the prior quarter. Cost of goods sold and the gross margin were also negatively impacted due to lower production in the quarter and therefore the amount of unallocated overhead expenses charged directly to cost of goods sold in the fourth quarter of 2022 was higher than in the fourth quarter of 2021. The margin for the current quarter was also positively impacted by a beneficial exchange rate and to a lesser extent sales price increases which impacted revenues.

RESEARCH AND PRODUCT DEVELOPMENT

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2022**	2021 *Restated*	CHANGE	**2022**	2021 *Restated*	CHANGE
Salaries and benefits	**828**	1,049		**240**	255	
Regulatory and patents	**159**	176		**44**	31	
Clinical study – avenanthramides	**392**	257		**85**	101	
Clinical study – beta glucan	**–**	1,694		**–**	100	
Other	**410**	702		**206**	294	
Total research and product development expenditures	**1,789**	3,878	–54%	**575**	781	–26%

For the year ended December 31, 2022, research and development expenses have decreased by $2,089,000 or 54% primarily due to the completion of the pilot clinical study for the development of beta glucan as a cholesterol reducer in 2021, lower salaries and benefit expense, and lower expenditures on other projects offset by an increase in expenditures in the current year relating to the upcoming clinical study on avenanthramides.

During the fourth quarter ended December 31, 2022, research and development expenses decreased by $206,000 or 26%. The decrease is primarily due to the completion of a pilot clinical study for the development of beta glucan as a cholesterol reducer in 2021, and lower expenditures on other projects in the current quarter.

Regulatory and patents expense, while slightly lower than the comparative year, has been relatively consistent and will vary from period to period based on the timing of filings and maintenance payments.

Research and development salaries expense is presented net of grant funding. The salaries expense is lower in both the current year and fourth quarter compared to the prior comparative periods primarily due to higher grant funding received in the current periods.

Expenditures on other projects during the current year are lower compared to the prior year primarily due to lower expenditures on an in-vivo study on our active ingredients that was initiated in the prior year. The decrease is also partially attributable to the receipt of grant funding against contractor fees for PGX related projects in the current year for which there was no associated funding in the prior year and due to lower expenditures on a bioavailability study that was conducted over the last two years and was completed in the current year. Offsetting these decreases, due to changes in the scientific research and development program, the Company did not receive a Scientific Research and Experimental Development "SRED" refund to offset expenditures in the current year whereas in the prior year it did, this also impacted

the fourth quarter. Expenditures on other projects during the current fourth quarter were also lower than the comparative fourth quarter primarily due to lower spending on the bioavailability study and other projects.

Expenditures relating to the new clinical study on avenanthramides related primarily to the development of the drug formulation to be used in the study and the development of the study protocol. In 2022, the study protocol was finalized and submitted to Health Canada for approval and the avenanthramide doses were manufactured in preparation for use in the upcoming clinical study. In December 2022, the Company received approval of the study. Subsequent to the year-end, the study has received approval from the Ethics Committee at the Montreal Heart Institute Research Center and enrollment is expected to commence in April 2023.

While current year and fourth quarter expenditures are lower, the Company expects research and development spending to increase in future periods, especially once the Company initiates enrollment and commences the Avenanthramide study. Significant investment in research and development is in line with the Company's business model of focusing on investing in its various enabling technologies, research on product development, and new applications for its value driving products.

GENERAL AND ADMINISTRATION

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2022**	2021	CHANGE	**2022**	2021	CHANGE
Salaries and benefits	**1,127**	768		**308**	214	
Consulting	**560**	560		**120**	120	
Licensing activities	**176**	262		**43**	64	
Board of Directors compensation	**357**	162		**103**	40	
Insurance	**209**	176		**56**	49	
Accounting and audit fees	**110**	120		**17**	32	
Rent	**72**	68		**18**	18	
Public company costs	**314**	467		**64**	95	
Travel	**108**	30		**64**	12	
Depreciation and amortization	**369**	339		**112**	86	
Legal	**27**	34		**7**	17	
Other	**271**	254		**81**	61	
Total general and administration expenses	**3700**	3,240	14%	**993**	808	23%

General and administration expense for the year ended December 31, 2022, increased by $460,000 or 14% from the prior year. Salaries and benefits expense increased significantly primarily due to a new hire in the current year relating to corporate development, partially due to a new hire in the third quarter of the prior year for the accounting department, and partially due to inflationary increases in salaries and wages. Board of Directors compensation also increased during the year primarily due to an increase in director base compensation to better realign the compensation to market. Base director fees had not been increased in over 10 years. Director fees also were higher in the current year due to share-based payment expense relating to the granting of stock options to new directors in the year. Travel expense increased in the current year largely due to strategic meetings held in the current fourth quarter. These notable increases were offset partially by a decrease in public company costs because one of the investor communication programs in place in the prior year was scaled back by the end of 2021 and is not reflected in the current year. Licensing activities expense also decreased compared to the prior year, as there were additional fees paid for evaluating the feasibility of additional opportunities in Europe in the prior year.

For the fourth quarter ended December 31, 2022, general and administration expense increased by $185,000 or 23% over the comparative quarter primarily due to the same reasons as noted for the year.

SALES AND MARKETING

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2022**	2021	CHANGE	**2022**	2021	CHANGE
Courses, conferences & advertising	**30**	46		**9**	12	
Other	**–**	1		**–**	–	
Total sales and marketing	**30**	47	–36%	**9**	12	–25%

Sales and marketing expense for the year ended December 31, 2022, decreased by $17,000 or 36% from the comparative year.

For the fourth quarter ended December 31, 2022, sales and marketing expense decreased by $3,000 or 25% from the comparative quarter.

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

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

FINANCE COSTS

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2022**	2021	CHANGE	**2022**	2021	CHANGE
Interest on lease liabilities	**130**	140		**33**	34	
Royalties	**55**	55		**–**	–	
Accretion of CAAP loan	**–**	12		**–**	3	
	185	207	–11%	**33**	37	–11%

Finance costs decreased by 11% or $22,000 in the year ended December 31, 2022, from $207,000 in 2021 to $185,000. The decrease is partially attributable to lower interest on the lease liabilities as the principal portion of these liabilities are lower from ongoing repayment and the new lease was not entered into until late in the year. The decrease is also partially due to there being no accretion on the CAAP loan in the current year as it was fully repaid at December 31, 2021.

Finance costs for the quarter ended December 31, 2022, decreased by 11% or $4,000, from $37,000 in 2021 to $33,000 due to the same factors that impacted the year.

OTHER INCOME

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2022**	2021	CHANGE	**2022**	2021	CHANGE
Foreign exchange (gain) loss	**(282)**	76		**68**	62	
Plant relocation costs	**91**	102		**25**	25	
Gain on disposal of equipment	**–**	(5)		**–**	–	
Other expense (income)	**(184)**	(1)		**(128)**	(7)	
Recognition of investment tax credits	**(88)**	(374)		**(88)**	(374)	
	(463)	(202)	129%	**(123)**	(294)	–58%

During the year ended December 31, 2022, other income increased by $261,000 or 129% from $202,000 to $463,000. The increase was primarily due to a significant foreign exchange gain during the current year compared to a foreign exchange loss in the prior year, as well as due to an increase in interest income from carrying a higher cash and cash equivalent balance and rising interest rates in the year. This was partially offset by lower recognition of investment tax credits in the year.

During the fourth quarter ended December 31, 2022, other income decreased by $171,000 or 58% from $294,000 to $123,000. The primary reason other income is lower relates to a lower investment tax credit receivable being set up in the current quarter compared to the prior quarter. In the prior quarter, there were a couple years of previously unrecognized tax credits relating to qualifying expenditures for scientific research and development costs recognized and in the current quarter, there was only one year. In both cases, the qualifying expenditures related to research and development expenses incurred in previous years, so the tax credits have been recognized in other income instead of offsetting research and development expenses. This decrease has been offset in the current quarter by an increase in interest income. The large increase in interest income in the current quarter relates mostly to rising interest rates and higher cash balances but also partially due to the reallocation of some interest income that was previously included in general and administration expense.

The Company's foreign exchange losses and gains are primarily due to the translation of US dollar denominated accounts receivable and accounts payable balances and from the timing of the realization of these balances. Foreign exchange will fluctuate between the quarters due to fluctuations between the US dollar and the Canadian dollar. During the second and third quarters of 2022, the US dollar strengthened creating significant foreign exchange gains that were higher than the foreign exchange losses incurred in the first and fourth quarter of 2022. In 2021, there was an overall foreign exchange loss during the year, and the fourth quarter loss in 2021 was comparable to that in 2022.

Plant relocation costs represent costs incurred relating to the new manufacturing facility in Edmonton that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized. While the shutdown and transfer of the Leduc manufacturing facility was completed in 2020, there are still some associated storage costs. Also included in this account are costs relating to additional bays of the facility that have not yet commenced construction.

DEPRECIATION AND AMORTIZATION EXPENSE

In the year ended December 31, 2022, the total depreciation and amortization expense was $1,911,000, which was slightly higher but consistent with an expense of $1,881,000 in the comparative period in 2021. The expense was allocated as follows: $369,000 to general and administration expense (2021 – $339,000), $688,000 to inventory (2021 *Restated* – $455,000), and $854,000 (2021 *Restated* – $1,087,000) to cost of goods sold.

QUARTERLY INFORMATION

The following selected financial information is derived from Ceapro's unaudited quarterly financial statements for each of the last eight quarters, all of which cover periods of three months. All amounts shown are in Canadian currency.

	2022				2021 *(Restated)*			
$000s EXCEPT PER SHARE DATA	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total revenues	**3,322**	**3,845**	**5,500**	**6,172**	3,562	4,523	4,408	4,702
Net income (loss)	**(230)**	**1,010**	**1,806**	**1,813**	734	1,025	966	641
Basic net income (loss) per common share	**(0.003)**	**0.013**	**0.023**	**0.023**	0.009	0.013	0.012	0.008
Diluted net income (loss) per common share	**(0.003)**	**0.013**	**0.023**	**0.023**	0.009	0.013	0.012	0.008

Ceapro's quarterly sales and results primarily fluctuate due to variations in the timing of customer orders, different product mixes, and changes in the capacity to manufacture products.

SIGNIFICANT NEW ACCOUNTING STANDARDS

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

New standards and amendments to existing standards have been published by the International Accounting Standards Board that are not yet effective. These standards are not expected to be relevant or material to the Company.

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EMPLOYED

$000s	**December 31, 2022**	December 31, 2021 *Restated*
Non-current assets	**17,146**	18,644
Current assets	**20,588**	12,407
Current liabilities	**(2,100)**	(972)
Total assets less current liabilities	**35,634**	30,079
Non-current liabilities	**3,345**	2,359
Shareholders' equity	**32,289**	27,720
Total capital employed	**35,634**	30,079

Non-current assets decreased by $1,498,000, partially due to the utilization of deferred tax assets of $283,000 on the Company's income tax provision, due to a depreciation provision of $1,908,000 and an amortization provision on licences of $3,000, and due to the utilization of deposits of $3,000, which was offset by the acquisition of $341,000 of property and equipment, the recognition of a right of use asset from a new lease in the amount of $269,000, and the net recognition of investment tax credits of $88,000.

Current assets increased by $8,181,000 primarily due to a net increase in cash from operations of $6,030,000, an increase in trade and other receivables in the amount of $746,000, and an increase in inventories of $1,433,000, offset by a decrease in prepaid expenses and deposits of $28,000.

Current liabilities totaling $2,100,000 increased by the net amount of $1,128,000 due to a significant increase in accounts payable and accrued liabilities of $1,048,000 primarily related to cost of goods sold late in the fourth quarter, and due to an increase in the current portion of lease liabilities of $80,000 which increased primarily due to a new lease in the fourth quarter of 2022.

Non-current liabilities totaling $3,345,000 increased by the amount of $986,000 primarily due to the recognition of deferred tax liabilities of $1,096,000 on the Company's income tax provision partially offset by net impact from the recognition of a new lease liability for a new lease entered into in the fourth quarter, the ongoing repayment of lease liabilities, and reallocation of current portion of the lease liabilities in the amount of $110,000.

Equity of $32,289,000 at December 31, 2022 increased by $4,569,000 from equity of $27,720,000 at December 31, 2021, primarily due to the recognition of net income of $4,398,000 for the year ended December 31, 2022, the recognition of share-based payment compensation of $90,000, and due to the issuance of shares from the exercise of stock options of $81,000.

SOURCES AND USES OF CASH

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

	Year Ended December 31,	
$000s	**2022**	2021 *Restated*
Sources of funds:		
Funds generated from operations adjusted for non-cash items	**7,908**	5,128
Proceeds from disposal of equipment	**–**	5
Share issuance	**81**	27
	7,989	5,160
Uses of funds:		
Purchase of property and equipment	**(341)**	(709)
Changes in non-cash working capital items relating to operating activities	**(1,141)**	(1,477)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	**(48)**	(87)
Interest paid	**(130)**	(140)
Repayment of CAAP loan	**–**	(84)
Repayment of lease liabilities	**(299)**	(251)
	(1,959)	(2,748)
Net change in cash flows	**6,030**	2,412

Net change in cash flow was an increase of $6,030,000 during the year ended December 31, 2022, in comparison with an increase of $2,412,000 for the comparative year. Cash generated from operations of $6,767,000 (after adjustment for non-cash items and working capital items relating to operating activities) in the current year was higher than the comparative year where cash generated from operations was $3,651,000, and this was primarily due to an increase in sales in the current year, a decrease in the investment in research and development of $2,090,000 compared to the prior year, a foreign exchange gain in the current year, significant interest revenue from cash balances and increased interest rates in the current year, and lower capital purchases in the current year.

The Company has a positive working capital balance (defined as current assets less current liabilities) of $18,487,442 at December 31, 2022 (December 31, 2021, *Restated* – $11,434,573). The Company estimates that the cash flows generated by its existing operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, maintain capital investment, and service debt needs. However, the Company has several ongoing research and development projects, planned upcoming clinical trials, planned upscaling of a PGX pilot unit at Agri-Food Discovery Place, and planned installation of a new ethanol recovery system, and management will have to prioritize expenditures on those projects that are in line with our stated objectives to develop new product applications and expand to the nutraceutical sector which we consider will provide the most beneficial outcome and value to our shareholders.

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

Total common shares issued and outstanding as at April 11, 2023, were 78,253,177. In addition, 3,462,999 stock options as at April 11, 2023, 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. The Company received funding of $671,068 to December 31, 2013, under this program and no further funds were received. All amounts claimed under the program were repayable interest free over eight years beginning in 2014. This funding was fully repaid at December 31, 2021.

b) During the year ended December 31, 2019, the Company entered into a contribution agreement with the National Research Council of Canada's Industrial Research Assistance Program (NRC – RAP) for non-repayable funding of up to a maximum $268,000 for costs incurred on the continued development of the Company's PGX Technology for the generation of biopolymers or drug delivery systems for deployment into the functional food, cosmetic, and drug delivery markets. During the year ended December 31, 2019, the Company received or recorded as a receivable $153,936, which was recorded as a reduction of research and development expenses. As at December 31, 2019, NRC – IRAP and the Company agreed to amend the contribution agreement to decommit $25,000 of the non-repayable funding. The agreement was amended twice in 2020. During the first quarter of 2020, NRC – IRAP and the Company agreed to amend the contribution agreement to increase funding by $107,000 for the period April 1, 2020 – March 31, 2022, and in October 2020, the contribution agreement was amended again to increase funding by $240,000 for the period April 1, 2020 – March 31, 2022. During the year ended December 31, 2020, the Company received or recorded as a receivable $367,542, which was recorded as a reduction of research and development expenses. During the year ended December 31, 2021, the Company received $68,522, which was recorded as a reduction of research and development expenses. The project was completed at December 31, 2021.

c) During the year ended December 31, 2021, the Company entered into a new contribution agreement with the National Research Council of Canada's Industrial Research Assistance Program (NRC – RAP) for non-repayable funding of up to a maximum $480,000 for costs incurred on the design of a pharmaceutical PGX processing unit, impregnation unit, and spray chamber unit for the Company's PGX Technology with the aim to boost the innovation capacity of the technology towards pharmaceutical applications. During the year ended December 31, 2021, the Company recognized $57,651 of funding which was recorded as a reduction of research and development expenses, of which $24,832 was included in other receivables at year-end. During the year ended December 31, 2022, the Company recognized $409,574 of funding which has been recorded as a reduction of research and development expenses, of which $22,293 has been included in other receivables at year-end. The Company received an additional $3,655 in the first quarter of 2023 and the project was completed.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2022, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $1,263,000 (2021 – $1,115,000), share-based payments expense for key management personnel was $58,000 (2021 – $8,000), and research and development expenditures paid to Angiogenesis Foundation for which a director of the Company is the CEO of the Foundation were $136,000 (2021 – $252,000).

The amount payable to directors at December 31, 2022, was $nil (2021 – $39,000). Consulting fees and key management salaries to officers included in accounts payable at December 31, 2022, was $nil (2021 – $10,000).

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

COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

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

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

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

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

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

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

OUTLOOK

Based on the strong performance in 2022, further contributing to the building of a very solid foundation for Ceapro's cosmeceuticals base business, the Company expects to continue to leverage on this base business to enable the development of new products and technologies like the planned Phase 1-2a clinical trial with Avenanthramides, the scale-up of the PGX Technology for the development of yeast beta glucan as an immune modulator, and the commercial scale-up of a malting technology to enable the production and selling of enriched oat flour with high concentration of avenanthramides to serve some nutraceutical market segments. The Company expects to complete these projects using cash in hand and cash to be generated from operations in 2023.

FINANCIAL INSTRUMENTS

The Company has exposure to financial instrument risks and this section provides disclosures relating to the nature and extent of our exposure to risks arising from financial instruments and how we manage those risks.

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 93% of trade receivables are due from one distributor at December 31, 2022 (December 31, 2021 – 93% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	December 31, 2022 $	December 31, 2021 $
Not yet due	**1,567,892**	1,378,587
Less than 30 days past due	**1,226,880**	262,125
Less than 60 days past due, more than 30 days past due	**25,528**	413,842
More than 60 days past due	**–**	38,288
Total	**2,820,300**	2,092,842

The Company has not assessed any trade receivables past due as impaired.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company-wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward- looking estimates. The expected credit losses calculated for December 31, 2022, and December 31, 2021, are not significant and have not been recognized.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $13,810,998 at December 31, 2022 (December 31, 2021 – $7,780,989) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

B) LIQUIDITY RISK

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

The following is the contractual maturity of the Company's financial liabilities and obligations at December 31, 2022:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	1,730,377	–	–	–	1,730,377

C) MARKET RISK

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

1. Foreign currency risk

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

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company. The amounts have been translated based on the exchange rate at December 31, 2022.

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (CDN)	
		–1% NET INCOME	+1% NET INCOME
Financial assets			
Trade receivables	2,080,998	26,816	(26,816)
Financial liabilities			
Accounts payable and accrued liabilities	969,542	(12,493)	12,493
Total increase (decrease)		14,323	(14,323)

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

2. Interest rate risk

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

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. The risks and uncertainties described in this MD&A are those we currently believe to be material, but they are not the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently deem immaterial, may also adversely affect our business. To the extent possible, we pursue and implement strategies to reduce or mitigate the risks associated with our business.

A) 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.

B) CUSTOMER RELIANCE

The Company derives over 90% of our sales and related accounts receivable from one distribution partner, Symrise AG, and while we are continually seeking to expand our customer base, we expect this will continue for the foreseeable future. Our future success in our base business cosmeceuticals market is dependent upon the continued demand by this distributor and their underlying customers, and the expansion of our customer base. Any decline in or loss of demand from this distributor or their underlying customers may have a negative impact on our revenues and an adverse impact on our business, financial condition, and results of operations.

C) INTELLECTUAL PROPERTY

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

D) LICENCES

Ceapro has entered into limited life licence agreements for exclusive rights to new technologies. As part of the licence agreements, the Company works to develop and scale up the new technologies with the goal to commercialize the technologies or products derived from the technologies. The development of these new technologies is a costly, complex, and time-consuming process, and the investment in this development often involves a prolonged time period until a return is achieved on the investment. The Company's ability to successfully develop and scale-up new technologies within the expiry periods of the licence agreements is dependent on a number of key factors such as hiring and retaining employees who have specialized knowledge and expertise pertaining to the development of the technologies, being able to access third party specialists, being able to source key equipment or supplies in a timely manner, and delays in research and development programs related to products derived from the technologies. Commercial success depends on many factors including the degree of innovation of the products developed, access to funding for scale-up opportunities, uncertainties inherent in the regulatory approval processes, delays in manufacturing or marketing arrangements, and sufficient support from strategic partners if applicable. Should the Company not be able to successfully develop and scale up the technologies within the time frames of the licence agreements, it could have an adverse impact on our business and operating results and the share price of our Common Shares may decline.

E) RESEARCH AND DEVELOPMENT PROGRAMS

Research and development programs may be regarded as uncertain, and the results obtained may not support the anticipated benefits. The development of new formulations, products, and treatments may require substantial investment and may take a significant amount of time. Pre-clinical and clinical trial work will be necessary to complete before potential products could be determined to be safe and effective products and before we can obtain regulatory approvals for products to be approved for human use. We may set expectations for the timing of programs and the expected results of those programs throughout the different phases of development, such as for anticipated regulatory submission and approval dates of clinical studies, for the commencement and completion of research programs and clinical studies, for expected results, and for the potential timing of commercialization. However, the timing of these events can vary due to unanticipated delays, unsatisfactory research program or clinical trial results, the ability to manufacture the products at a reasonable cost, the ability to find appropriate partners for further commercialization, and to market successfully. At any stage, we may find it necessary to abandon the development of a potential new formulation, product and treatment and we may need to develop a new business strategy. This may have an adverse effect on our potential revenues and operating results.

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) 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.

I) CYBER SECURITY

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

J) 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.

K) LEGAL MATTERS

In the normal course of operations, the Company may be subject to a variety of legal proceedings, including commercial, product liability, employment, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources, and can cause the Company to incur significant expenses. Furthermore, because litigation is inherently unpredictable, and can be very expensive, the results of any such actions may have a material adverse effect on our business, operations, or financial condition.

L) SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

M) FAIR VALUE AND IMPAIRMENT

The Company relies on forecasts and estimates in its evaluation of the fair value of financial instruments and the recoverable amounts of non-financial assets in relation to impairment testing. The accuracy of such forecasts are inherently

vulnerable to assumptions related to the timing of future events, the size of anticipated markets, forecasted costs, and the expected growth of sales.

N) PUBLIC HEALTH CRISIS

The Company is exposed to risks related to pandemics or epidemics such as the ongoing COVID-19 virus pandemic. The Company could experience disruptions in our raw materials supply chain, in our manufacturing operations, and our shipping activities as a result of quarantines, facility closures, travel and logistics restrictions, and other limitations in connection with the outbreak. COVID-19 may adversely affect our employees, our operations, our suppliers, and our customers. In addition to the impact on operations, these same disruptions may also adversely affect our research and development partners, research institutions, and laboratories which can negatively impact and delay our research programs. While we would expect this to be temporary, there is uncertainty around the duration of this pandemic, especially considering the variants of the virus that have emerged, and its broader impact. The extent to which the current pandemic or future ones will impact the Company's results will depend on further developments which are highly uncertain and cannot be predicted with great certainty.

ADDITIONAL INFORMATION

Additional information relating to Ceapro Inc., including a copy of the Company's Annual Report and Proxy Circular, can be found on SEDAR at www.sedar.com.

:: Consolidated Financial Statements

MANAGEMENT'S REPORT

TO THE SHAREHOLDERS OF **CEAPRO INC.,**

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

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

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

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

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

Sincerely,

SIGNED "Gilles Gagnon"
President and Chief Executive Officer

SIGNED "Stacy Prefontaine"
Chief Financial Officer

April 11, 2023

Independent Auditor's Report

Grant Thornton LLP
Suite 1600
333 Seymour Street
Vancouver, BC
V6B 0A4

T +1 604 687 2711
F +1 604 685 6569

To the Shareholders of

Ceapro Inc.

Opinion

We have audited the consolidated financial statements of Ceapro Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2022, and 2021 and the consolidated statements of net income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter–restated comparative information

We draw attention to Note 3 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2021 has been restated. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment and allocation of inventory costing

Refer to Notes 2(c), 2(f), 3 and 4 of the consolidated financial statements.

The inventories balance as of December 31, 2022 was $3,757,040, of which work in progress and finished goods represented $2,892,323. Inventories are stated at the lower of cost, determined on a weighted average basis, and net realizable value. There was a change in the application of overhead costs to work in progress and finished goods during the year, which required retrospective application resulting in an adjustment to the December 31, 2021 inventories and cost of goods sold of $679,192 and $778,337 respectively.

Given the significant auditor attention required during the year to obtain sufficient appropriate audit evidence regarding the overhead cost allocation, including consideration of management's judgements

Grant Thornton

used in their methodology for overhead cost allocation in accordance with International Financial Reporting Standards, we have determined the assessment and allocation of inventory costing to be a key audit matter.

Our audit procedures included, amongst other procedures:

- Obtained an understanding and tested management's process for developing the standard costing model and overhead allocations.
- Assessed the accuracy, completeness, and reasonableness of the costs included in the standard costs model, including overhead allocations to verify all costs capitalized were appropriate and complete.
- Evaluated the appropriateness and reasonableness of the assumptions, including production times, used by management to allocate costs to specific inventory products.
- Performed price testing on raw material inputs purchased by tracing the recorded costs to supporting third party invoices.
- Assessed the overhead cost allocation for appropriate accounting treatment under the provisions of International Financial Reporting Standards.

Information other than the consolidated financial statements and auditor's report thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Grant Thornton

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because of the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mark Iwanaka.

Grant Thornton LLP

Vancouver, Canada
April 11, 2023

Chartered Professional Accountants

CONSOLIDATED BALANCE SHEETS

	December 31, 2022 $	December 31, 2021 *Restated (note 3)* $
ASSETS		
Current Assets		
Cash and cash equivalents	**13,810,998**	7,780,989
Trade receivables	**2,820,300**	2,092,842
Other receivables	**64,808**	45,850
Inventories (note 4)	**3,757,040**	2,324,085
Prepaid expenses and deposits	**135,133**	162,919
Total Current Assets	**20,588,279**	12,406,685
Non-Current Assets		
Investment tax credits receivable	**854,895**	766,629
Deposits	**76,954**	79,539
Licences (note 5)	**12,588**	15,551
Property and equipment (note 6)	**16,201,755**	17,499,774
Deferred tax assets (note 13(b))	**–**	282,849
Total Non-Current Assets	**17,146,192**	18,644,342
TOTAL ASSETS	**37,734,471**	31,051,027
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**1,730,377**	682,057
Current portion of lease liabilities (note 7)	**370,460**	290,055
Total Current Liabilities	**2,100,837**	972,112
Non-Current Liabilities		
Long-term lease liabilities (note 7)	**2,248,577**	2,358,862
Deferred tax liabilities (note 13(b))	**1,095,968**	–
Total Non-Current Liabilities	**3,344,545**	2,358,862
TOTAL LIABILITIES	**5,445,382**	3,330,974
Equity		
Share capital (note 8(b))	**16,694,625**	16,557,401
Contributed surplus (note 8(e))	**4,714,404**	4,680,690
Retained earnings	**10,880,060**	6,481,962
Total Equity	**32,289,089**	27,720,053
TOTAL LIABILITIES AND EQUITY	**37,734,471**	31,051,027

See accompanying notes

Approved on Behalf of the Board

SIGNED: "Geneviève Foster"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

Years Ended December 31,	2022 $	2021 *Restated (note 3)* $
Revenue (note 15)	**18,839,607**	17,195,329
Cost of goods sold	**7,821,908**	6,727,699
Gross margin	**11,017,699**	10,467,630
Research and product development	**1,788,666**	3,878,247
General and administration	**3,700,498**	3,239,672
Sales and marketing	**29,558**	47,119
Finance costs (note 10)	**184,967**	206,891
Income from operations	**5,314,010**	3,095,701
Other income (note 11)	**(462,905)**	(202,281)
Income before tax	**5,776,915**	3,297,982
Income taxes		
Current tax expense (note 13(a))	**–**	215,376
Deferred tax expense (benefit) (note 13(a))	**1,378,817**	(282,849)
Income tax expense (benefit)	**1,378,817**	(67,473)
Total net income and comprehensive income for the year	**4,398,098**	3,365,455
Net income per common share (note 20):		
Basic	**0.06**	0.04
Diluted	**0.06**	0.04
Weighted average number of common shares outstanding (note 20):		
Basic	**77,961,714**	77,673,804
Diluted	**78,582,083**	78,590,706

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital $	Contributed surplus $	Retained earnings $	Total equity $
Balance December 31, 2021	16,557,401	4,680,690	6,481,962	27,720,053
Share-based payments (note 8(c))	–	89,648	–	89,648
Share options exercised	137,224	(55,934)	–	81,290
Total net income and comprehensive income for the year	–	–	4,398,098	4,398,098
Balance December 31, 2022	16,694,625	4,714,404	10,880,060	32,289,089
Balance December 31, 2020	16,511,067	4,682,393	3,116,507	24,309,967
Share-based payments (note 8(c))	–	17,906	–	17,906
Share options exercised	46,334	(19,609)	–	26,725
Total net income and comprehensive income for the year	–	–	3,365,455	3,365,455
Balance December 31, 2021 *Restated (note 3)*	16,557,401	4,680,690	6,481,962	27,720,053

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2022 $	2021 *Restated (note 3)* $
OPERATING ACTIVITIES		
Net income for the year	4,398,098	3,365,455
Adjustments for items not involving cash		
Finance costs	129,967	140,270
Depreciation and amortization	1,911,278	1,880,748
Gain on disposal of equipment	–	(5,000)
Accretion	–	11,621
Deferred income tax expense (benefit)	1,378,817	(282,849)
Share-based payments	89,648	17,906
	7,907,808	5,128,151
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(727,458)	(73,119)
Other receivables	(18,958)	56,374
Investment tax credits receivable	(88,266)	(158,929)
Inventories	(1,432,955)	(1,114,006)
Prepaid expenses and deposits	30,371	111,044
Accounts payable and accrued liabilities relating to operating activities	1,096,074	(298,765)
	(1,141,192)	(1,477,401)
Net income for the year adjusted for non-cash and working capital items	6,766,616	3,650,750
Interest paid	(129,967)	(140,270)
CASH GENERATED FROM OPERATIONS	6,636,649	3,510,480
INVESTING ACTIVITIES		
Purchase of property and equipment	(341,067)	(708,903)
Proceeds from sale of equipment	–	5,000
Accounts payable and accrued liabilities relating to investing activities	(47,754)	(86,800)
CASH USED IN INVESTING ACTIVITIES	(388,821)	(790,703)
FINANCING ACTIVITIES		
Stock options exercised	81,290	26,725
Repayment of CAAP loan	–	(83,884)
Repayment of lease liabilities	(299,109)	(250,658)
CASH USED IN FINANCING ACTIVITIES	(217,819)	(307,817)
Increase in cash and cash equivalents	6,030,009	2,411,960
Cash and cash equivalents at beginning of the year	7,780,989	5,369,029
Cash and cash equivalents at end of the year	13,810,998	7,780,989

See accompanying notes

Cash and cash equivalents are comprised of $13,810,998 (2021 – $7,780,989) on deposit with financial institutions.

:: Notes to Consolidated Financial Statements December 31, 2022 and 2021

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 and on the OTCQX® Best Market under the symbol CRPOF. The Company's primary business activities relate to the development and marketing of various health and wellness products and technology relating to plant extracts.

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

2. SIGNIFICANT ACCOUNTING POLICIES

A) STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Board of Directors authorized these consolidated financial statements for issue on April 11, 2023.

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., Ceapro USA Inc., and Juvente^{DC} Inc. Effective December 31, 2021, the Company wound up Ceapro Technology Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc. into the Company and dissolved Ceapro USA Inc.

All intercompany accounts and transactions have been eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

C) USE OF MANAGEMENT CRITICAL JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

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

Management critical judgements

Policies that are critical for the presentation of the financial position and financial performance of the Company and that require judgements are discussed as follows.

Functional currency

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

Management estimates and assumptions

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

Taxation

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

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

Investment tax credits

The recognition of investment tax credits relating to the Company's qualifying scientific research and experimental development expenditures requires management to estimate the amount and timing of recovery. The Company has assessed that it is probable that sufficient taxable income will be available to recognize the investment tax credits as recognized at December 31, 2022.

Impairment of non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Inventories

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

Property and equipment

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Licences

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

Share-based payments

The fair value of share-based payments is determined using the Black-Scholes option pricing model based on estimated fair values at the date of grant. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the award. Changes in these assumptions can significantly affect the fair value estimate. For more information, see note 8.

Leases

For the measurement of leases, management considers all factors relating to the assessment of whether or not a contract includes a lease, estimating a lease term including all factors relating to determining whether it is reasonably certain or not that an extension option will be exercised, and determining the appropriate rate to discount lease payments.

D) CASH AND CASH EQUIVALENTS

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

E) REVENUE RECOGNITION

The Company generates revenues from product sales. Each sale is considered a single performance obligation and revenue for the sale of product is recognized at the point in time when control or ownership of the product is transferred to the customer, generally when the products are shipped, when collectability is probable, and the Company has satisfied its performance obligation.

Product revenues are derived primarily from standard product sales contracts. Contracts with customers do not provide for refunds or any other rights of return. The Company does not have any revenue contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As such, the Company does not adjust any of the transaction prices for the time value of money.

When an amount is received as an advance or a deposit from a customer, prior to the recognition of revenue, it results in a contract liability.

F) INVENTORIES

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

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

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

G) PROPERTY AND EQUIPMENT

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

Manufacturing equipment	5 – 25 years straight-line
Office equipment	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	over the term of the lease
Right-of-use asset – buildings	4 to 12 years straight-line

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

H) INTANGIBLE ASSETS

Acquired

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Licences

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

Research and product development expenditures

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

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(e) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I) IMPAIRMENT OF NON-FINANCIAL ASSETS

For impairment assessment purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or CGUs).

Cash generating units or individual assets such as property and equipment and intangible assets with a finite life are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If such indication exists, the Company estimates the recoverable amount of the assets, which is the higher of its fair value less costs of disposal and its value in use. Value in use is estimated as the present value of future cash flows generated by this asset or CGU including eventual disposal. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and an impairment loss is recognized immediately in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimated recoverable amount and the carrying amount that would have been recorded, had no impairment loss been recognized previously. Any such recovery is recognized immediately in profit or loss.

J) LEASES

At inception, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- The Company has the right to direct the use of the identified assets throughout the period of use. The Company assesses whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is measured at an amount equal to the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected not to recognize right-of-use assets or lease liabilities for short-term leases and leases of low-value assets. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these leases are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the balance sheet, right-of-use assets have been included in property and equipment.

K) FOREIGN CURRENCY TRANSLATION

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

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

L) INCOME TAXES

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

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

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

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

M) GOVERNMENT GRANTS

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

N) INVESTMENT TAX CREDITS

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

O) INCOME (LOSS) PER COMMON SHARE

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

P) SHARE-BASED PAYMENT ARRANGEMENTS

Stock option plan

The Company issues equity-settled share-based awards to eligible employees, directors, officers, and consultants under stock option plans that can vest over periods ranging from 2 years to 10 years and have a maximum term of ten years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Restricted share unit plan

The Company has a restricted share unit plan ("RSU plan") which provides for the grant of restricted share units ("RSUs"). The obligations under the RSU plan can be settled at the Company's discretion through either cash or the issuance of common shares. The Company measures the cost of equity-settled share-based arrangements using the fair value method, whereby compensation expense related to the granting of RSUs is recorded in profit or loss with a corresponding increase to contributed surplus. The Company measures the value of RSUs by reference to the fair value at the grant date, which is usually represented by the quoted closing price of the Company's stock on the TSX-V exchange on the trading day immediately preceding the date of grant. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates estimated forfeitures will change.

Q) PROVISIONS

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

R) FINANCIAL INSTRUMENTS

All financial instruments are measured at initial recognition at fair value plus any transaction costs that are directly attributable to the acquisition of the financial instruments except for transaction costs related to financial instruments classified as at fair value through profit or loss (FVPL) which are expensed as incurred.

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three categories into which the Company can classify its financial assets:

i) Amortized cost. A financial asset is measured at amortized cost if the contractual cash flows to repay the principal and interest are made at specific dates and if the Company's business model is to collect the contractual cash flows. Subsequent measurement uses the effective interest method, less any provision for impairment.

The Company's financial assets consist of cash and cash equivalents and trade and other receivables which are measured at amortized cost.

ii) Fair value through other comprehensive income (FVOCI). A financial asset is measured at FVOCI if the Company's business model is both to collect the contractual cash flows and sell assets and the contractual terms of the assets give rise on specified dates to cash flows that are solely repayments of principal and interest. The Company does not hold any financial assets at FVOCI.

iii) Fair value through profit or loss (FVPL). A financial asset is measured at FVPL if it cannot be measured at amortized cost or FVOCI. At initial recognition, the Company may also irrevocably designate a financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Financial assets at FVPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The Company does not hold any financial assets at FVPL.

A financial asset is derecognized when the Company no longer has the rights to the contractual cash flows due to expiration of that right or the transfer of the risks and rewards of ownership to another party.

The Company recognizes a loss allowance for expected credit losses on its financial assets using the simplified approach which permits the use of the lifetime expected loss provision for all trade receivables. At each reporting date, the Company assesses impairment of trade receivables on a collective basis as its trade receivables possess shared credit risk characteristics and have been grouped based on days past due. The loss allowance will be based upon the Company's historical credit loss experience over the expected life of trade receivables and contract assets, adjusted for forward-looking estimates. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

A financial liability is initially classified as measured at amortized cost or FVPL. A financial liability is classified as measured at FVPL if it is held for trading, a derivative, contingent consideration of an acquirer in a business combination, or has been designated as FVPL on initial recognition. Financial liabilities at FVPL are measured at fair value with changes in fair value, along with any interest expense, recognized in profit or loss. All other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method.

The Company's financial liabilities consist of accounts payable and accrued liabilities which have been classified as financial liabilities at amortized cost and are measured at amortized cost using the effective interest method. A financial liability is derecognized when the obligation is discharged, cancelled, or expired.

S) FUTURE ACCOUNTING PRONOUNCEMENTS

The IASB has published several new, but not yet effective, standards, amendments to existing standards, and interpretations. None of these standards, amendments to existing standards, or interpretations have been early adopted by the Company, and management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. No pronouncements have been disclosed as they are not expected to have a material impact on the Company's consolidated financial statements.

3. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

During the year ended December 31, 2022, the Company conducted a detailed evaluation of the manufacturing process of its extraction facility in Edmonton in order to assess the appropriateness of the accounting estimates used to assign the costs of conversion of inventories from the raw materials stage through to the finished goods stage for the valuation of inventories.

Pursuant to the completion of the analysis, the Company has changed its method of assigning the costs of conversion to ensure the valuation of inventory incorporates the costs of conversion more appropriately through the different stages of production for the multiple products produced at the facility. The change will also allow for more appropriate valuation of future products currently under development. In applying the change to the method of assigning conversion costs, the Company has determined that more costs of conversion should have been allocated to the work in progress inventories and less to cost of goods sold at December 31, 2021. As a result, the Company has restated the consolidated financial statements for the year ended December 31, 2021, and the impact of this is an overall increase in the value of inventories, an overall decrease in cost of goods sold with an associated increase in income before tax, and a reduction of the deferred tax benefit and the related deferred tax asset for the year ended December 31, 2021. The change to the method of assigning costs to inventories only impacts the timing of when costs are allocated to inventories and when they are released to cost of goods sold, it is not a reflection of a different amount of costing and therefore there is no impact to cash

3. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS (CONTINUED)

flows other than the presentation of line items within the cash flow statement. The impact of the specific adjustments made are presented in the tables below.

The Company has not applied the restatement prior to January 1, 2021, as the transition to the new facility was only completed at the end of December 31, 2020. Up to this point, the production of inventories at the Edmonton facility were significantly lower and an appropriate assignment of costs using the new methodology is not material.

Impact on Consolidated Balance Sheets

Year Ended December 31, 2021	Previously Reported $	Adjustment $	Restated $
Inventories	1,644,893	679,192 a)	2,324,085
Deferred tax asset	439,063	(156,214)	282,849
Retained Earnings	5,958,984	522,978 b)	6,481,962

a) The impact of changing the method of assigning conversion costs to inventories has also impacted the allocation of depreciation assigned to the cost of inventories and cost of goods sold. The amount of depreciation included in inventories at December 31, 2021 has been restated from $185,532 to $454,730 and the amount of depreciation included in cost of goods sold has been restated from $1,356,504 to $1,087,306 (see note 6). The amount of inventories expensed to cost of goods sold during the year ended December 31, 2021, has been restated from $7,451,083 to $6,256,581. The write-down of inventories charged to cost of goods sold during the year ended December 31, 2021, has been restated from $10,993 to $10,195 (see note 4).

b) The adjustment to retained earnings for the year ended December 31, 2021, reflects the decrease in cost of goods sold due to assigning more costs to inventories which had the effect of increasing income before tax, as well as the decrease in the deferred tax benefit from the use of non-capital losses carried forward to offset the increase in income before tax.

Impact on Consolidated Statements of Changes in Equity

Year Ended December 31, 2021	Previously Reported $	Adjustment $	Restated $
Net income and comprehensive income	2,842,477	522,978	3,365,455
Retained earnings	5,958,984	522,978 (b)	6,481,962

Impact on Consolidated Statements of Net Income And Comprehensive Income

Year Ended December 31, 2021	Previously Reported $	Adjustment $	Restated $
Cost of goods sold	7,506,036	(778,337) c)	6,727,699
Gross margin	9,689,293	778,337	10,467,630
Research and product development	3,779,102	(99,145) c)	3,679,957
Income before tax	2,618,790	679,192	3,297,982
Income tax benefit	(223,687)	156,214	(67,473)
Net income and comprehensive income	2,842,477	522,978	3,365,455

c) The impact on cost of goods sold includes the increase in costs of conversion assigned to inventories at December 31, 2021 of $679,192 as well as the increase in the value of product that was transferred to be used in research and development projects in the amount of $99,145.

The calculation of net income per share on a basic and diluted basis was impacted from using the restated net income for the year ended December 31, 2021, but the difference in the calculation was not significant enough to result in a change to the calculated $0.04 earnings per share on a basic or diluted basis.

Impact on Consolidated Statements of Cash Flows

Year Ended December 31, 2021	Previously Reported $	Adjustment $	Restated $
Operating Activities:			
Net income	2,842,477	522,978	3,365,455
Adjustments for items not involving cash :			
Deferred income tax benefit	(439,063)	156,214	(282,849)
Changes in Non-Cash Working Capital Items :			
Inventories	(434,814)	(679,192)	(1,114,006)

There are adjustments to the individual line items within Operating Activities in the Consolidated Statements of Cash Flows. However, as reflected above, there is no overall impact to cash flows generated from operations following the adjustments. Furthermore, there is no impact to any line item in Investing Activities or Financing Activities.

4. INVENTORIES

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

	December 31, 2022 $	December 31, 2021 *Restated (note 3)* $
Raw materials	**864,717**	549,022
Work in progress	**2,527,445**	1,485,609
Finished goods	**364,878**	289,454
	3,757,040	2,324,085

Inventories expensed to cost of goods sold during the year ended December 31, 2022, are $6,948,706 (December 31, 2021, *Restated* – $6,256,581).

During the year ended December 31, 2022, the Company decreased the carrying value of inventory by $23,891 (2021 *Restated* – $10,195) primarily due to damaged or obsolete inventory. The write-down is included in cost of goods sold.

5. LICENCES

During the year ended December 31, 2014, and as amended on February 2, 2015, the Company entered into a licence agreement with the University of Alberta for the rights to a technology that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients for all industrial applications. The agreement expires after a term of 20 years or after the expiration of the last patent obtained, whichever event shall occur first. There is no initial licence fee, but the Company is required to make royalty payments (see note 14 (b)).

During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and commenced amortizing the licence over 15 years in April 2012. Amortization of $2,963 has been included in general

5. LICENCES (CONTINUED)

and administration expense for the year ended December 31, 2022 (December 31, 2021 – $2,963) (see note 14 (a)).

Cost of licences	$
Balance – December 31, 2020	44,439
Additions	–
Balance – December 31, 2021	44,439
Additions	–
Balance – December 31, 2022	44,439

Accumulated amortization	
Balance – December 31, 2020	25,925
Amortization	2,963
Balance – December 31, 2021	28,888
Amortization	2,963
Balance – December 31, 2022	31,851

Net book value	
Balance – December 31, 2022	12,588
Balance – December 31, 2021	15,551

6. PROPERTY AND EQUIPMENT

Cost	Equipment Not Available For Use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Buildings $	Leasehold Improvements $	Total $
December 31, 2020	1,518,826	11,999,108	319,219	483,565	3,430,656	8,704,977	26,456,351
Additions	459,601	293,141	2,753	11,403	–	19,472	786,370
Disposals	–	(13,100)	–	–	–	–	(13,100)
December 31, 2021	1,978,427	12,279,149	321,972	494,968	3,430,656	8,724,449	27,229,621
Additions	3,697	222,219	5,666	103,049	269,229	6,436	610,296
Disposals	–	–	–	(3,650)	–	–	(3,650)
December 31, 2022	1,982,124	12,501,368	327,638	594,367	3,699,885	8,730,885	27,836,267
Accumulated Depreciation							
December 31, 2020	–	4,867,321	251,534	428,738	676,093	1,641,476	7,865,162
Additions	–	856,683	13,693	18,112	333,165	656,132	1,877,785
Disposals	–	(13,100)	–	–	–	–	(13,100)
December 31, 2021	–	5,710,904	265,227	446,850	1,009,258	2,297,608	9,729,847
Additions	–	851,723	13,829	43,363	342,139	657,032	1,908,086
Disposals	–	–	–	(3,421)	–	–	(3,421)
December 31, 2022	–	6,562,627	279,056	486,792	1,351,397	2,954,640	11,634,512
Carrying Amount							
December 31, 2022	1,982,124	5,938,741	48,582	107,575	2,348,488	5,776,245	16,201,755
December 31, 2021	1,978,427	6,568,245	56,745	48,118	2,421,398	6,426,841	17,499,774

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Year Ended December 31, 2022	854,251	687,680	366,155	1,908,086
Year Ended December 31, 2021 *Restated*	1,087,306	454,730	335,749	1,877,785

Included in the net carrying amount of property and equipment at December 31, 2022, are right-of-use assets relating to buildings, in the amount of $2,348,488 (December 31, 2021 – $2,421,398).

Included in the carrying amount of leasehold improvements is $1,059,707 (December 31, 2021 – $1,059,707) and included in the carrying amount of equipment not available for use is $1,982,124 (December 31, 2021 – $1,978,427) which represent the accumulated expenditures incurred on the purchase of an ethanol recovery system, equipment purchased for technology scale-up, other equipment, and the engineering design for the related construction and installation of the ethanol recovery system. At December 31, 2022, no amortization has commenced on these balances as construction and installation activities have not commenced.

7. LEASE LIABILITIES

The Company has leases for manufacturing facilities, office space, and warehouse. The lease liabilities consist of leases of buildings. The leases have been discounted using interest rates between 3.42% – 6.76%.

Year Ended December 31,	**2022 $**	2021 $
Balance at beginning of year	**2,648,917**	2,899,575
Additions	**269,229**	–
Interest expense	**129,584**	141,298
Lease payments	**(428,693)**	(391,956)
Balance at end of year	**2,619,037**	2,648,917
Less current portion	**370,460**	290,055
Non-current portion	**2,248,577**	2,358,862

Future minimum lease payments at December 31, 2022, are as follows:

	Within one year $	One to five years $	More than five years $	Total $
Lease payments	500,155	1,798,977	820,285	3,119,417
Finance charges	129,695	322,588	48,097	500,380
Net present values	370,460	1,476,389	772,188	2,619,037

In November 2022, the Company entered into a new five-year lease agreement for additional space for the installation of a mid-level scale-up of the PGX technology. This new lease has resulted in a $269,229 addition to the lease liability and a corresponding increase to the right of use asset for buildings (see note 5). This non-cash adjustment has been excluded from the Statement of Cash Flows.

The expense relating to payments not included in the measurement of the lease liabilities is as follows:

	2022 $	2021 $
Short-term leases	**24,555**	30,351

At December 31, 2022, the Company was committed to short-term leases and the total commitment at that date was $33,068 (December 31, 2021 – $22,915).

8. SHARE CAPITAL

A. AUTHORIZED

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

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

B. ISSUED – CLASS A COMMON SHARES

	Year Ended December 31, 2022		Year Ended December 31, 2021	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of the year	**77,685,843**	**16,557,401**	77,621,341	16,511,067
Stock options exercised	**547,334**	**137,224**	64,502	46,334
Balance at end of the year	**78,233,177**	**16,694,625**	77,685,843	16,557,401

C. STOCK OPTION SHARE-BASED PAYMENT PLAN

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 uses the Black-Scholes option pricing model to price its options.

In the year ended December 31, 2022, the Company granted 450,000 (December 31, 2021 – 30,000) 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 2022 was 2.49% (2021 – .92%), the weighted average expected volatility was 66% (2021 – 66%) which was based on prior trading activity of the Company's shares for the period corresponding with the expected life of the options, the weighted average expected life of the options was 5 years (2021 – 5 years), the forfeiture rate was 0% (2021 – 0%), the weighted average share price was $0.51 (2021 – $0.64), the weighted average exercise price was $0.51 (2021 – $0.64), and the expected dividends were nil (2021 – nil). The weighted average grant date fair value of options granted in the year ended December 31, 2022, was $0.29 (2021 – $0.35) per option.

The share-based payments expense recorded during the current year relating to options granted in 2022, 2021, and 2020 is $89,648 (during 2021 relating to options granted in 2021, 2020 and 2019 – $17,906).

A summary of the status of the Company's stock options at December 31, 2022 and December 31, 2021 and changes during the years ended on those dates is as follows:

	Year Ended December 31, 2022		Year Ended December 31, 2021	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of year	**2,990,333**	**0.56**	3,048,501	0.55
Granted	**450,000**	**0.51**	30,000	0.64
Exercised	**(547,334)**	**0.15**	(64,502)	0.41
Forfeited	**(150,000)**	**0.64**	(23,666)	0.37
Outstanding at end of year	**2,742,999**	**0.67**	2,990,333	0.56
Exercisable at end of year	**2,432,999**	**0.69**	2,848,673	0.58

8. SHARE CAPITAL (CONTINUED)

Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Contractual Life Remaining (years)	**Number of Options Outstanding**	Number of Options Exercisable
0.32	0.56	2027	4.5	**150,000**	50,000
0.30	0.52	2027	4.3	**150,000**	50,000
0.24	0.44	2027	4.2	**150,000**	50,000
0.35	0.64	2026	3.7	**30,000**	20,000
0.21	0.36	2025	2.0	**291,333**	291,333
0.25	0.39	2024	1.0	**294,666**	294,666
0.47	0.50	2028	5.0	**195,000**	195,000
0.56	0.59	2027	4.8	**90,000**	90,000
1.22	1.30	2027	4.3	**10,000**	10,000
1.65	1.75	2027	4.0	**400,000**	400,000
0.34	0.36	2025	2.3	**150,000**	150,000
0.47	0.50	2025	2.1	**100,000**	100,000
0.60	0.64	2025	2.0	**562,000**	562,000
0.37	0.27	2024	1.9	**150,000**	150,000
0.05	0.10	2023	0.0	**20,000**	20,000
				2,742,999	2,432,999
Weighted Average Contractual Life Remaining				**2.9**	2.7

Subsequent to the year-end, the Company granted 740,000 stock options to employees, officers, and directors of the Company.

The stock options have an exercise price of $0.62 per common share and expire in five years. Each grant vests in three equal instalments, the first of which vests immediately with the second and third instalments vesting on the first and second anniversaries of the date of grant.

D. RESTRICTED SHARE UNIT SHARE-BASED PAYMENT PLAN

Effective June 1, 2017, the Company adopted a restricted share unit plan, which provides for the grant of restricted share units ("RSU's") to existing or proposed directors, employees, and consultants of the Company and its subsidiaries or any insider of the Company and its subsidiaries. Under the plan, the maximum number of common shares that may be reserved for issuance is fixed at 1,000,000. On the vesting of RSU's, the common shares of the Company will be issued from the same 10% rolling pool as the common shares issued under the stock option plan. The obligations under the RSU plan can be settled at the Company's discretion through either the issuance of cash or the issuance of common shares. The Company intends to settle the obligations through the issuance of common shares.

The Company did not grant RSU's during the years ended December 31, 2022 or December 31, 2021 and there are no RSU's outstanding during those years.

Of the 1,000,000 RSU's authorized for grant under the RSU plan, at December 31, 2022, 370,000 RSU's are available for grant (December 31, 2021 – 370,000).

E. CONTRIBUTED SURPLUS

	Year Ended December 31, 2022 $	Year Ended December 31, 2021 $
Balance at beginning of the year	**4,680,690**	4,682,393
Share-based payments (note 8(c))	**89,648**	17,906
Stock options exercised	**(55,934)**	(19,609)
Balance at end of the year	**4,714,404**	4,680,690

9. RELATED PARTY TRANSACTIONS

Related party transactions during the years are as follows:

Year Ended December 31,	**2022 $**	2021 $
Key management salaries, short-term benefits, consulting fees, and director fees	**1,262,521**	1,115,171
Key management personnel share-based payments	**57,557**	8,190
Research and development expenditures paid to Angiogenesis Foundation for which a director of the Company is the CEO of the Foundation	**136,400**	251,759

Balance as at December 31,	**2022 $**	2021 $
Amount payable to directors	**–**	39,382
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	**–**	10,000

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.

10. FINANCE COSTS

Year Ended December 31,	**2022 $**	2021 $
Interest on lease liabilities	**129,967**	140,270
Royalties	**55,000**	55,000
Accretion of CAAP loan	**–**	11,621
	184,967	206,891

11. OTHER INCOME

Year Ended December 31,	**2022 $**	2021 $
Foreign exchange (gain) loss	**(281,442)**	75,843
Other income	**(184,210)**	(678)
Gain on disposal of equipment	**–**	(5,000)
Plant relocation costs	**91,013**	101,859
Recognition of investment tax credits	**(88,266)**	(374,305)
	(462,905)	(202,281)

12. EMPLOYEE BENEFITS EXPENSE

Year Ended December 31,	**2022 $**	2021 $
Employee benefits	**4,460,260**	3,945,945

Employee benefits include wages, salaries, bonuses, and CPP, EI, WCB contributions, share-based payment expense, and benefit premiums. Employee benefits are included in cost of goods sold, general and administration, research and product development, and sales and marketing expenses.

In the year ended December 31, 2022, employee benefits expense has been allocated as follows: $1,968,805 to general and administration expense (2021 – $1,476,174), $1,313,620 to cost of goods sold (2021 – $1,295,028), and $1,177,835 to research and product development expense (2021 – $1,174,743).

13. INCOME TAXES

(A) INCOME TAX EXPENSE (BENEFIT)

Components of income tax expense are:

	December 31, 2022 $	December 31, 2021 *Restated (note 3)* $
Current tax expense	**–**	215,376
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	**1,351,599**	547,780
Tax rate changes and tax rate differences	**59,834**	230,592
Change in unrecognized deductible temporary differences	**61,546**	(1,021,144)
Prior period adjustments	**(94,162)**	(40,077)
Income tax expense (benefit)	**1,378,817**	(67,473)

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined Federal and Provincial corporate tax rates to income before tax. These differences result from the following:

	December 31, 2022 $	December 31, 2021 *Restated (note 3)* $
Income before tax	**5,776,915**	3,297,982
Statutory income tax rate	**23.00%**	23.00%
Expected income tax expense	**1,328,690**	758,536
Increase (decrease) resulting from:		
Non taxable items	**22,909**	4,620
Change in unrecognized deductible temporary differences	**61,546**	(1,021,144)
Change in tax rates and rate differences	**59,834**	230,592
Prior period adjustments	**(94,162)**	(40,077)
Income tax expense (benefit)	**1,378,817**	(67,473)

(B) RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

	December 31, 2022 $	December 31, 2021 *Restated (note 3)* $
Deferred tax assets are attributable to the following:		
Patents	**151,645**	161,657
Intangibles	**44,051**	47,366
Other	**558**	558
SRED pool	**302,141**	235,966
Lease liability	**602,379**	609,251
Non-capital losses	**817,164**	2,180,205
Deferred tax assets	**1,917,938**	3,235,003
Offset by deferred tax liabilities	**(1,917,938)**	(2,952,154)
Net deferred tax asset	**–**	282,849
Deferred tax liabilities are attributable to the following:		
Property and equipment	**(2,817,280)**	(2,775,829)
SRED investment tax credits	**(196,626)**	(176,325)
Deferred tax liabilities	**(3,013,906)**	(2,952,154)
Offset by deferred tax assets	**1,917,938**	2,952,154
Net deferred tax liability	**(1,095,968)**	–

13. INCOME TAXES (CONTINUED)

(C) UNRECOGNIZED DEFERRED TAX ASSETS

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

	December 31, 2022 $	December 31, 2021 $
Deductible temporary differences	**21,778**	22,885
Tax losses	**9,048,460**	8,818,642
	9,070,238	8,841,527

The non-capital loss carryforwards expire between 2027 and 2041. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company and its subsidiaries can utilize the benefits.

14. COMMITMENTS AND CONTINGENCIES

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

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

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

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

(b) During the year ended December 31, 2014, the Company entered into a licence agreement with the University of Alberta for the rights to an enabling pressurized gas expanded technology (PGX) that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients. The agreement expires after a term of 20 years or after the expiration of the last patent obtained, whichever event shall occur first.

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; and

(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.

15. REVENUE

The Company has one reportable operating segment and revenue stream, being the operations relating to the active ingredient product technology industry.

The active ingredient product technology industry involves the development of proprietary extraction technologies and the application of these technologies to the production and development and commercialization of active ingredients derived from oats and other renewable plant resources for healthcare and cosmetic industries. Active ingredients produced include oat beta glucan and avenanthramides. These and similar manufactured products are sold primarily through distribution networks.

Geographic Information

The following table presents revenue from contracts with customers disaggregated by geographic location to depict how the nature, amount, timing, and uncertainty of revenue and cash flows could be affected by economic factors:

Year Ended December 31,	**2022** **$**	2021 $
United States	**11,071,801**	11,389,652
Germany	**5,934,994**	4,001,952
China	**1,724,509**	1,671,026
Other	**70,151**	63,144
Canada	**38,152**	69,555
	18,839,607	17,195,329

During the year ended December 31, 2022, the Company had export sales to one major distributor of the Company's products in the aggregate amount of $17,638,541 representing 94% of total revenue (2021 – $15,885,193 representing 92% of total revenue). This major distributor sells to dozens of customers on a worldwide basis.

All the assets of the Company, which support the revenues of the Company, are located in Canada.

16. 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

The 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.

16. FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities approximate their carrying amount(s) due to their short-term nature.

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 93% of trade receivables are due from one distributor at December 31, 2022 (December 31, 2021 – 93% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	December 31, 2022 $	December 31, 2021 $
Not yet due	**1,567,892**	1,378,587
Less than 30 days past due	**1,226,880**	262,125
Less than 60 days past due, more than 30 days past due	**25,528**	413,842
More than 60 days past due	**–**	38,288
Total	**2,820,300**	2,092,842

The Company has not assessed any trade receivables past due as impaired.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company-wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward-looking estimates. The expected credit losses calculated for December 31, 2022 and December 31, 2021 are not significant and have not been recognized.

Other receivables can represent amounts due for research program claims, government funding 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 counterparties.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $13,810,998 at December 31, 2022 (December 31, 2021 – $7,780,989) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

B) LIQUIDITY RISK

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 is the contractual maturity of the Company's financial liabilities and obligations at December 31, 2022:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	1,730,377	–	–	–	1,730,377

C) MARKET RISK

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

1. Foreign currency risk

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

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company. The amounts have been translated based on the exchange rate at December 31, 2022.

	Carrying Amount (USD)	FOREIGN EXCHANGE RISK (CDN)	
		-1% Net Income	+1% Net Income
Financial assets			
Trade receivables	2,080,998	26,816	(26,816)
Financial liabilities			
Accounts payable and accrued liabilities	969,542	(12,493)	12,493
Total increase (decrease)		14,323	(14,323)

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

2. Interest rate risk

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

17. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the year ended December 31, 2022.

18. 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. The Company received funding of $671,068 to December 31, 2013, under this program and no further funds were received. All amounts claimed under the program were repayable interest free over eight years beginning in 2014. This funding was fully repaid at December 31, 2021.

b) During the year ended December 31, 2019, the Company entered into a contribution agreement with the National Research Council of Canada's Industrial Research Assistance Program (NRC-IRAP) for non-repayable funding of up to a maximum of $268,000 for costs incurred on the continued development of the Company's PGX Technology for the generation of biopolymers or drug delivery systems for deployment into the functional food, cosmetic and drug delivery markets. During the year ended December 31, 2019, the Company received or recorded as a receivable $153,936 which was recorded as a reduction of research and project development expenses. At December 31, 2019, NRC-IRAP and the Company agreed to amend the contribution agreement to decommit $25,000 of the non-repayable funding. The agreement has been amended twice in 2020. During the first quarter of 2020, NRC-IRAP and the Company agreed to amend the contribution agreement to increase funding by $107,000 for the period April 1, 2020 – March 31, 2022, and in October 2020, the contribution agreement was amended again to increase funding by $240,000 for the period April 1, 2020, to March 31, 2022. During the year ended December 31, 2020, the Company received or recorded as a receivable $367,542 which was recorded as a reduction of research and project development expenses. During the year ended December 31, 2021, the Company received $68,522 which was recorded as a reduction of research and development expenses. The project was completed at December 31, 2021.

c) During the year ended December 31, 2021, the Company entered into a new contribution agreement with the National Research Council of Canada's Industrial Research Assistance Program (NRC-IRAP) for non-repayable funding of up to a maximum of $480,000 for costs incurred on the design of a pharmaceutical PGX processing unit, impregnation unit, and spray chamber unit for the Company's PGX Technology with the aim to boost the innovation capacity of the technology towards pharmaceutical applications. During the year ended December 31, 2021, the Company recognized $57,651 of funding which was recorded as a reduction of research and development expenses, of which $24,832 was included in other receivables at year-end. During the year ended December 31, 2022, the Company recognized $409,574 of funding which has been recorded as a reduction of research and development expenses, of which $22,293 has been included in other receivables at year-end. The Company received an additional $3,655 in the first quarter of 2023 and the project was completed.

19. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Company's liabilities arising from financing activities can be classified as follows:

	CAAP loan $	Lease Liabilities $	Total $
Balance January 1, 2022	–	2,648,917	2,648,917
Cash changes			
Repayments	–	(299,109)	(299,109)
Non cash changes			
Lease addition	–	269,229	269,229
Balance December 31, 2022	–	2,619,037	2,619,037

	CAAP loan $	Lease Liabilities $	Total $
Balance January 1, 2021	72,263	2,899,575	2,971,838
Cash changes			
Repayments	(83,884)	(250,658)	(334,542)
Non cash changes			
Accretion	11,621	–	11,621
Balance December 31, 2021	–	2,648,917	2,648,917

20. INCOME PER COMMON SHARE

Year Ended December 31,	**2022**	2021 *Restated*
Net income for the year for basic and diluted earnings per share calculation	**$4,398,098**	$3,365,455
Weighted average number of common shares outstanding	**77,961,714**	77,673,804
Effect of dilutive stock options	**620,369**	916,902
Diluted weighted average number of common shares	**78,582,083**	78,590,706
Income per share – basic	**$0.06**	$0.04
Income per share – diluted	**$0.06**	$0.04

For the year ended December 31, 2022, 1,302,000 (year ended December 31, 2021 – 430,000) stock options outstanding have not been included in the diluted income per share calculation because the options' exercise price was greater than the average market price of the common shares during the year.

Investor Information – April 19, 2023

DIRECTORS

Ronald W. Miller, Chair
Geneviève Foster, Chair of Audit Committee
Gilles Gagnon, President & CEO
Glenn Rourke
Dr. Ulrich Kosciessa
Dr. William W. Li

OFFICERS

Gilles Gagnon, M.Sc., MBA, ICD.D
President & CEO

Stacy Prefontaine, CPA, CA
Chief Financial Officer & Corporate Secretary

STOCK INFORMATION

TSXV: CZO
OTCQX: CRPOF

HEAD OFFICE

7824 – 51 Avenue NW
Edmonton, Alberta
Canada T6E 6W2
Telephone: 1 780.421.4555
Fax: 1 780.421.1320
Website: www.ceapro.com
Email: info@ceapro.com

INVESTOR RELATIONS

JTC, Investor Relations + Integrated Communications
1110 Harrison Street, Suite 200
Frenchtown, New Jersey
USA 08825
Contact: Jenene Thomas
Telephone (US): 1 833.475.8247
Email: czo@jtcir.com

REGISTERED OFFICE

Suite 2900, Manulife Place
10180 – 101 Street NW
Edmonton, AB
Canada T5J 3V5

AUDITORS

Grant Thornton LLP
Suite 1600
333 Seymour Street
Vancouver, BC
Canada V6B 0A4

CORPORATE COUNSEL

Bryan & Company LLP
Suite 2900, Manulife Place
10180 – 101 Street NW
Edmonton, Alberta
Canada T5J 3V5

SECURITIES COUNSEL

Bryan & Company LLP
Suite 2900, Manulife Place
10180 – 101 Street NW
Edmonton, Alberta
Canada T5J 3V5

CHARTERED BANK

TD Canada Trust
10205 – 101 Street NW
Edmonton, Alberta
Canada T5J 2Y8

TRANSFER AGENT & REGISTRAR

Computershare
800, 324 – 8th Avenue SW
Calgary, Alberta
Canada T2P 2Z2

CHANGE OF ADDRESS

Registered Shareholders should notify the Company's Transfer Agent and Registrar at the address set out above.

Beneficial Owners should contact their respective brokerage firm to give notice of change of address.

FINANCIAL CALENDAR

The Company's year-end is December 31. Quarterly reports are available in May, August, and November.

ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

The annual general and special meeting of shareholders will be a virtual meeting held on:

June 6, 2023 at 9:00 am MDT

For more information, please refer to the Company's Management Information Circular filed on SEDAR at www.sedar.com.

EQUAL OPPORTUNITY EMPLOYER

Ceapro Inc. is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age, or disability.

Printed in Canada

Ceapro Inc.
7824 – 51 Avenue NW
Edmonton, Alberta
Canada T6E 6W2
Telephone: 1 780.421.4555
Fax: 1 780.421.1320
www.ceapro.com