TSXV: CZO OTCQX: CRPOF











Q1 2023



Unaudited Condensed Consolidated Financial Statements for the First Quarter ended March 31, 2023

Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the periods ended March 31, 2023 and 2022, the financial position as at March 31, 2023, and the outlook of Ceapro Inc. ("Ceapro" and "the Company") based on information available as at May 23, 2023. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at March 31, 2023, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2022, 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, 2022. All comparative percentages are between the periods ended March 31, 2023 and 2022 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A offers our assessment of Ceapro's future plans and operations as at May 23, 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 and its wholly-owned subsidiary Juvente^{DC} Inc. (Juvente) are incorporated under the Canada Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island.

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 whollyowned 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 – Periods Ended March 31, 2023 and 2022

CONSOLIDATED INCOME STATEMENT

	2023		2022	
\$000s except per share data		%	Restated	%
Total revenues	3,495	100%	6,172	100%
Cost of goods sold	1,889	54%	2,457	40%
Gross margin	1,606	46%	3,715	60%
Research and product development	574	16%	355	6%
General and administration	1,521	44%	769	12%
Sales and marketing	8	0%	5	0%
Finance costs	89	3%	88	1%
(Loss) income from operations	(586)	-17%	2,497	40%
Other (income) expenses	(96)	-3%	123	2%
(Loss) income before tax	(490)	-14%	2,374	38%
Income tax (benefit) expense	(105)	-3%	561	9%
Net (loss) income	(385)	-11%	1,813	29%
Basic net (loss) income per common share	(0.00)		0.02	
Diluted net (loss) income per common share	(0.00)		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 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 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 retrospectively restated the consolidated financial statements for the year ended December 31, 2022, reflect the adjustments for which the accounts were restated. Refer to Note 3 of the audited consolidated financial statements for the year ended December 31, 2022.

The changing of the method of assigning costs of conversion to inventories impacted certain of the comparative figures that were previously published in the 2022 quarterly financial statements. These comparative accounts have been restated as outlined in Note 3 of the unaudited interim condensed consolidated financial statements as at March 31, 2023.

Revenue

Three Months Ended March 31

\$000s	2023	2022	Change
Total revenues	3,495	6,172	-43%

Revenue for the three month period ended March 31, 2023, decreased by approximately \$2,677,000 or 43% from the comparative quarter in 2022. The decrease was driven by an overall decrease in sales volumes of 50% compared to the prior quarter, which was primarily due to lower sales of the Company's flagship products avenanthramides and beta glucan. The lower sales revenue was partially offset due to a higher U.S. dollar relative to the Canadian dollar compared to the prior quarter which positively impacted revenue by approximately \$226,000.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

Three Months Ended March 31.

		= = ,			
	2023	2022			
\$000s		Restated	Change		
Sales	3,495	6,172	-43%		
Cost of goods sold	1,889	2,457	-23%		
Gross margin	1,606	3,715	-57%		
Gross margin %	46%	60%			

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 three month period ended March 31, 2023, revenue decreased by approximately 43% and cost of goods sold only decreased by 23%, this resulted in a decrease in the gross margin percentage from 60% in the prior quarter to 46% in the current quarter.

The decrease in the gross margin in the current quarter is due to several factors. One of the more significant factors relates to the lower sales in the current quarter of what is typically our highest margin product, avenanthramides. The gross margin was also negatively impacted by the higher cost to produce the avenanthramides sold, as the finished goods were produced using concentrate manufactured from lower yielding grain compared to the high-quality grain used to manufacture the finished goods in the comparative quarter. In addition, the increased cost of materials to produce beta glucan also contributed to a lower margin.

RESEARCH AND PRODUCT DEVELOPMENT

Three Months	Ended	March 31,
--------------	-------	-----------

\$000s	2023	2022	Change
Salaries and benefits	308	198	
Regulatory and patents	24	92	
Clinical study - avenanthramides	50	39	
Other	192	26	
Total research and product			
development expenditures	574	355	62%

For the three month period ended March 31, 2023, research and development expenses increased by \$199,000 or 62% primarily due higher salaries and benefit expense and higher expenditures on other projects offset by a decrease in regulatory and patent expenses.

Regulatory and patents expense 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 higher in the current quarter compared to the prior quarter primarily due to approximately \$94,000 higher grant funding received in the prior quarter compared to the current quarter. The grant program was completed in the current quarter, so no further funding is expected over the rest of the year. The increase in salaries and benefits expense is also partially due to higher share-based payment expense from the granting of stock options to employees in January 2023.

Expenditures on other projects during the current quarter are higher compared to the prior quarter primarily due to the initiation of a new study to investigate additional features of bioactivity that define function at the tissue and cell-specific level on our active ingredients. The increase is also partially attributable to the receipt of grant funding against contractor fees for PGX related projects in the prior quarter for which there was no associated funding in the current quarter.

Expenditures relating to the new clinical study on avenanthramides were slightly higher in the current quarter due to preparation for enrollment of subjects which is expected to commence in Q2 2023.

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

Three Months Ended March 31,

\$000s	2023	2022	Change
Salaries and benefits	361	217	
Consulting	120	120	
Licensing activities	30	53	
Board of Directors compensation	271	59	
Insurance	56	49	
Accounting and audit fees	35	32	
Rent	18	18	
Public company costs	72	68	
Travel	24	4	
Depreciation and amortization	96	77	
Legal	343	3	
Other	95	69	
Total general and administration			
expenses	1,521	769	98%

General and administration expense for the three month period ended March 31, 2023, increased by \$752,000 or 98% from the comparative quarter, primarily due to an increase in salaries and benefits expense, Board of Directors compensation and legal fees.

Salaries and benefits expense increased significantly, partially due to a new hire in the third quarter of the prior year relating to corporate development, and partially due an increase in share-based payment expense relating to the granting of stock options in January 2023. The increase is also slightly due to inflationary increases in salaries and wages.

Board of Directors compensation expense also increased significantly compared to the prior quarter. This was partially due to an increase in director base compensation that was effective late in the second quarter in the prior year, in order 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 quarter due to share-based payment expense relating to the granting of stock options in January 2023. The primary reason for the increase is related to the Company's objective to focus on value creation and growth of the Company. In line with this objective, in the current quarter, directors were engaged in assessing different strategic growth opportunities which resulted in significant legal fees incurred mostly for conducting preliminary due diligence on one particular opportunity. Subsequent to the quarter, the Company decided not to continue assessing this opportunity but intends to continue assessing all possible strategies to support the accelerated growth of the Company in step with the planned intention of entering into new markets through our pipeline of new products and technologies.

SALES AND MARKETING

Three Months Ended March 31,

\$000s	2023	2022	Change
Courses, conferences & advertising	8	5	
Total sales and marketing	8	5	60%

Sales and marketing expense for the three month period ended March 31, 2023, increased by \$3,000 or 60% from the comparative period.

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

	Three Months Ended March 31,		
\$000s	2023	2022	Change
Interest on lease liabilities	34	33	
Royalties	55	55	
	89	88	1%

Finance costs increased by 1% or \$1,000 in the three month period ended March 31, 2023, from \$88,000 in 2022 to \$89,000. The increase is due to slightly higher lease interest on lease liabilities as a result of entering into a new lease in November 2022.

OTHER (INCOME) EXPENSE

	Three Months Ended March 31,		
\$000s	2023	2022	Change
Foreign exchange loss	25	107	
Other (income) expense	(121)	16	
	(96)	123	-178%

During the three month period ended March 31, 2023, other (income) expense increased by \$219,000 or 178% from an expense of \$123,000 in the prior guarter to income of \$96,000 in the current guarter.

The increase was partially due to a lower foreign exchange loss during the current quarter compared to the prior quarter. The Company's foreign exchange losses and gains are primarily due to the translation of US dollar denominated accounts receivable and accounts payable balances, and from the timing of the realization of these balances. Foreign exchange will fluctuate between the quarters due to fluctuations between the US dollar and the Canadian dollar. During the first quarter of 2022 the US dollar weakened significantly against the Canadian dollar resulting in a large foreign exchange loss. In the first quarter of 2023 the US dollar weakened significantly less against the Canadian dollar than it did in the prior quarter resulting in a much lower foreign exchange loss.

Other (income) expense went from an overall expense in the prior quarter to overall income in the current quarter primarily due to a significant increase in interest income from carrying a higher cash and cash equivalents balance and higher interest rates compared to the prior quarter. This interest income was offset slightly by other expenses which include some residual plant relocation costs, including storage and additional rent related to undeveloped bays in the current facility for which construction has not yet commenced.

DEPRECIATION AND AMORTIZATION EXPENSE

In the three month period ended March 31, 2023, the total depreciation and amortization expense was \$485,000 which was slightly higher than an expense of \$462,000 in the comparative period in 2022. The expense was allocated as follows: \$95,000 to general and administration expense (2022 - \$77,000), \$272,000 to inventory (2022 Restated - \$177,000), and \$118,000 (2022 Restated - \$208,000) to cost of goods sold.

Quarterly Information

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

\$000s except per share data	2023		2022 (R	estated)		202	21 (Restat	ed)
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenues	3,495	3,322	3,845	5,500	6,172	3,562	4,523	4,408
Net (loss) income	(385)	(230)	1,010	1,806	1,813	734	1,025	966
Basic net (loss) income per common share	(0.005)	(0.003)	0.013	0.023	0.023	0.009	0.013	0.012
Diluted net (loss) income per common share	(0.005)	(0.003)	0.013	0.023	0.023	0.009	0.013	0.012

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

Significant New Accounting Standards

There were no new standards that became effective for periods beginning on or after January 1, 2023, that have a material impact on the Company's unaudited interim condensed consolidated financial statements for the period ended March 31, 2023.

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

Liquidity and Capital Resources

CAPITAL EMPLOYED

\$000s	March 31, 2023	December 31, 2022
Non-compart consta	40.000	47.440
Non-current assets	16,686	17,146
Current assets	19,961	20,588
Current liabilities	(1,465)	(2,100)
Total assets less current liabilities	35,182	35,634
Non-current liabilities	3,142	3,345
Shareholders' equity	32,040	32,289
Total capital employed	35,182	35,634

Non-current assets decreased by \$460,000, primarily due to a depreciation provision of \$484,000 and an amortization provision on licences of \$1,000, which was offset by the acquisition of \$25,000 of property and equipment.

Current assets decreased by \$627,000 primarily due to a net decrease in cash for the three month period ending March 31, 2023 in the amount of \$1,248,000, offset by an increase in trade and other receivables in the amount of \$81,000, an increase in inventories of \$488,000, and an increase in prepaid expenses and deposits of \$52,000.

Current liabilities totaling \$1,465,000 decreased by the net amount of \$635,000 due to a decrease in accounts payable and accrued liabilities of \$647,000 primarily related to the payment of significant accounts payable existing at December 31, 2022, offset partially by an increase in the current portion of lease liabilities of \$11,000.

Non-current liabilities totaling \$3,142,000 decreased by the amount of \$203,000 primarily due to the ongoing repayment of lease liabilities and reallocation of current portion of the lease liabilities in the amount of \$97,000 and the reduction of deferred tax liabilities of \$105,000 on the Company's income tax provision.

Equity of \$32,040,000 at March 31, 2023 decreased by \$249,000 from equity of \$32,289,000 at December 31, 2022, primarily due to the recognition of a net loss of \$385,000 for the three month period ended March 31, 2023, offset by the recognition of share-based payment compensation of \$134,000 and the issuance of shares from the exercise of stock options of \$2,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended March 31, 2023, and 2022.

	Three Months Ended March 31	
	2023	2022
\$000s		Restated
Sources of funds:		
Funds generated from operations adjusted for non-cash items	163	2,884
Share issuance	2	. 1
	165	2,885
Uses of funds:		
Purchase of property and equipment	(25)	(181)
Deposits relating to investing activities	(17)	-
Changes in non-cash working capital items relating to operating		
activities	(1,250)	(1,551)
Changes in non-cash accounts payable and accrued liabilities		
relating to investing activities	-	(48)
Interest paid	(34)	(33)
Repayment of lease liabilities	(86)	(71)
	(1,412)	(1,884)
Net change in cash flows	(1,247)	1,001

Net change in cash flow was a decrease of \$1,247,000 during the three month period ended March 31, 2023, in comparison with an increase of \$1,001,000 for the comparative quarter. Cash was used in operations in the amount of \$1,087,000 (after adjustment for non-cash items and working capital items relating to operating activities) in the current quarter compared to cash being generated in the comparative quarter in the amount of \$1,333,000. This was primarily due to a decrease in sales in the current quarter and partially due to a significant payment of accounts payable in the current quarter that existed at December 31, 2022. This decrease in cash from operations was partially offset by lower spending on the purchase of property and equipment in the current quarter.

The Company has a positive working capital balance (defined as current assets less current liabilities) of \$18,496,554 at March 31, 2023 (December 31, 2022, \$18,487,442). 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 May 23, 2023, were 78,253,177. In addition, 3,612,999 stock options as at May 23, 2023, were outstanding that are potentially convertible into an equal number of common shares at various prices.

GRANT FUNDING

During the year ended December 31, 2021, 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 \$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. During the three month period ended March 31, 2023, the Company received a final payment of \$3,655 which was recorded as a reduction of research and development expenses and the project was completed.

Related Party Transactions

During the three month period ended March 31, 2023, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling \$441,000 (2022 – \$262,000), share-based payments expense for key management personnel was \$93,000 (2022 - \$14,000) and research and development expenditures paid to Angiogenesis Foundation for which a director of the Company is the CEO of the Foundation were \$103,000 (2022 - \$nil).

The amount payable to directors at March 31, 2023, was \$nil (2022 - \$46,000).

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:

<u>Year</u>	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

While sales orders were lower during the first quarter of 2023, mainly in conjunction with a re-organization resulting from the spin-off of the consumer division of one major customer, who we expect will resume its re-ordering pattern, the prospects for the company remains positive. We will continue to leverage on our solid base business to enable the development of new products and technologies like the 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 formulations with high concentration of avenanthramides to serve some nutraceutical market segments. The Company expects to advance these projects using cash in hand in 2023 while continuing to assess different market initiatives to unlock value.

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 95% of trade receivables are due from one distributor at March 31, 2023 (December 31, 2022 – 93% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	March 31,	December 31,
	2023	2022
	\$	\$
Not yet due	2,059,239	1,567,892
Less than 30 days past due	851,999	1,226,880
Less than 60 days past due, more than 30 days past due	-	25,528
More than 60 days past due	-	-
Total	2,911,238	2,820,300

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

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company-wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward-looking estimates. The expected credit losses calculated for March 31, 2023, and December 31, 2022, 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 \$12,563,469 at March 31, 2023 (December 31, 2022 - \$13,810,998) 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 March 31, 2023:

	within 1 year	1 to 3 years	3 to 5 years	over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued					
liabilities	1,083,571	-	-	-	1,083,571

c) Market risk

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

1. Foreign currency risk

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

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company. The amounts have been translated based on the exchange rate at March 31, 2023.

	Carrying	Foreign Exchange Risk (CDN)			Foreign Exchange Risk (CD	e Risk (CDN)
	Amount	-1%	+1%			
	(USD)	Net Income	Net Income			
Financial assets						
Trade receivables	2,151,093	29,111	(29,111)			
Financial liabilities						
Accounts payable and accrued liabilities	325,401	(4,404)	4,404			
Total increase (decrease)		24,707	(24,707)			

The carrying amount of trade receivables and accounts payable and accrued liabilities in USD represents the Company's exposure at March 31, 2023.

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.

I) Financial risks

The Company is exposed to various financial risks including, credit risk, foreign currency risk, liquidity risk, and interest rate risk, each of which could have an adverse impact on our business, financial condition, results of operations and cash flows. These risks are further discussed in the Financial Instruments section of this MD&A.

m) 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.

n) 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.

o) 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.

Unaudited Condensed Interim Consolidated Financial Statements for the First Quarter Ended March 31, 2023 and 2022

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

CEAPRO INC.

Condensed Interim Consolidated Balance Sheets

Unaudited

	March 31, 2023	December 31, 2022
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	12,563,469	13,810,998
Trade receivables	2,911,238	2,820,300
Other receivables	54,419	64,808
Inventories (note 4)	4,245,505	3,757,040
Prepaid expenses and deposits	186,949	135,133
Total Current Assets	19,961,580	20,588,279
Non-Current Assets		
Investment tax credits receivable	854,895	854,895
Deposits	76,954	76,954
Licences (note 5)	11,847	12,588
Property and equipment (note 6)	15,741,886	16,201,755
Total Non-Current Assets	16,685,582	17,146,192
TOTAL ASSETS	36,647,162	37,734,471
LIABILITIES AND EQUITY		_
Current Liabilities		
Accounts payable and accrued liabilities	1,083,571	1,730,377
Current portion of lease liabilities (note 7)	381,455	370,460
Total Current Liabilities	1,465,026	2,100,837
Non-Current Liabilities		
Long-term lease liabilities (note 7)	2,151,394	2,248,577
Deferred tax liabilities	990,620	1,095,968
Total Non-Current Liabilities	3,142,014	3,344,545
TOTAL LIABILITIES	4,607,040	5,445,382
Equity	40.00= = :=	
Share capital (note 8 (b))	16,697,712	16,694,625
Contributed surplus (note 8 (e))	4,847,400	4,714,404
Retained earnings	10,495,010	10,880,060
Total Equity	32,040,122	32,289,089
TOTAL LIABILITIES AND EQUITY	36,647,162	37,734,471

See accompanying notes

Approved on Behalf of the Board

SIGNED: "Geneviève Foster" Director

SIGNED: "Dr. Ulrich Kosciessa" Director

CEAPRO INC.

Condensed Interim Consolidated Statements of Net (Loss) Income and Comprehensive (Loss) Income Unaudited

	2023	2022
		Restated
		(note 3)
Three Months Ended March 31,	\$	\$
Revenue (note 14)	3,494,811	6,171,624
Cost of goods sold	1,888,973	2,457,102
Gross margin	1,605,838	3,714,522
Research and product development	573,687	355,281
General and administration	1,521,445	769,045
Sales and marketing	8,179	5,299
Finance costs (note 10)	88,800	88,035
(Loss) income from operations	(586,273)	2,496,862
Other (income) expense (note 11)	(95,875)	123,038
Loss (income) before tax	(490,398)	2,373,824
Deferred tax (benefit) expense	(105,348)	560,895
Total net (loss) income and comprehensive (loss) income for the period	(385,050)	1,812,929
Net (loss) income per common share (note 17):		
Basic	(0.00)	0.02
Diluted	(0.00)	0.02
Weighted average number of common shares outstanding (note 17):		
Basic	78,251,844	77,686,576
Diluted	78,251,844	78,333,335

See accompanying notes

CEAPRO INC. Condensed Interim Consolidated Statements of Changes in Equity Unaudited

	Share capital	Contributed surplus \$	Retained earnings \$	Total equity
Balance December 31, 2022	16,694,625	4,714,404	10,880,060	32,289,089
Share-based payments (note 8 (c))	<u>-</u>	134,083	-	134,083
Share options exercised	3,087	(1,087)	-	2,000
Total net loss and comprehensive loss for the period	-	-	(385,050)	(385,050)
			, ,	7
Balance March 31, 2023	16,697,712	4,847,400	10,495,010	32,040,122
Balance December 31, 2021 Restated (note 3)	16,557,401	4,680,690	6,481,962	27,720,053
Share-based payments (note 8 (c))	-	14,914	-	14,914
Share options exercised	574	(214)	-	360
Total net income and comprehensive income for the period	-	-	1,812,929	1,812,929
Balance March 31, 2022 Restated (note 3)	16,557,975	4,695,390	8,294,891	29,548,256

See accompanying notes

CEAPRO INC.

Condensed Interim Consolidated Statements of Cash Flows Unaudited

	2023	2022 Restated
		(note 3)
Three Months Ended March 31,	\$	\$
OPERATING ACTIVITIES	Ψ	
Net (loss) income for the period	(385,050)	1,812,929
Adjustments for items not involving cash	,	
Finance costs	33,800	33,035
Depreciation and amortization	485,253	462,456
Deferred income tax (benefit) expense	(105,348)	560,895
Share-based payments	134,083	14,914
	162,738	2,884,229
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(90,938)	(1,447,715)
Other receivables	10,389	(30,108)
Inventories	(488,465)	139,629
Prepaid expenses and deposits	(34,397)	(135,299)
Accounts payable and accrued liabilities relating to operating activities	(646,806)	(77,608)
	(1,250,217)	(1,551,101)
Net (loss) income for the period adjusted for non-cash and working capital items	(1,087,479)	1,333,128
Interest paid	(33,800)	(33,035)
CASH (USED IN) GENERATED FROM OPERATIONS	(1,121,279)	1,300,093
INVESTING ACTIVITIES		
Purchase of property and equipment	(24,643)	(180,897)
Deposits relating to the purchase of equipment	(17,419)	-
Accounts payable and accrued liabilities relating to investing activities	<u>-</u>	(47,754)
CASH USED IN INVESTING ACTIVITIES	(42,062)	(228,651)
FINANCING ACTIVITIES		
Stock options exercised	2,000	360
Repayment of lease liabilities	(86,188)	(71,219)
CASH USED IN FINANCING ACTIVITIES	(84,188)	(70,859)
(Decrease) Increase in cash and cash equivalents	(1,247,529)	1,000,583
Cash and cash equivalents at beginning of the period	13,810,998	7,780,989
Cash and cash equivalents at end of the period	12,563,469	8,781,572

See accompanying notes

Cash and cash equivalents are comprised of \$12,563,469 (December 31, 2022 - \$13,810,998) on deposit with financial institutions.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2023 AND 2022 Unaudited

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 condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of consolidated financial statements, including IAS 34, "Interim Financial Reporting". The accounting principles and methods of computation adopted in these financial statements are the same as those of the annual financial statements for the year ended December 31, 2022.

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements. The financial statements and notes presented should be read in conjunction with the annual financial statements for the year ended December 31, 2022.

The Audit Committee authorized these condensed interim consolidated financial statements for issue on May 23, 2023.

b) Basis for presentation

These condensed interim 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 (P.E.I.) Inc. and Juvente^{DC} 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 period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

c) 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 condensed interim 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 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 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 restated the consolidated financial statements for the year ended December 31, 2021. The consolidated financial statements of the Company for the year ended December 31, 2022, reflect the adjustments for which the accounts were restated. Refer to Note 3 of the audited consolidated financial statements for the year ended December 31, 2022.

The following is a summary of the impacts from changing the method of assigning costs of conversion to inventories on the comparative consolidated statements of net income and comprehensive income, changes in equity, and cash flows for the three months ended March 31, 2022.

Impact on Condensed Interim Consolidated Statements of Net Income And Comprehensive Income

	Previously Reported	Adjustment	Restated
Three Months Ended March 31, 2022	\$	\$	\$
Cost of goods sold	2,217,015	240,087 a)	2,457,102
Gross margin	3,954,609	(240,087)	3,714,522
Income before tax	2,613,911	(240,087)	2,373,824
Deferred income tax expense	617,623	(56,728)	560,895
Net income and comprehensive income	1,996,288	(183,359)	1,812,929
Net income per common share (basic and			
diluted)	0.03	(0.01)	0.02

a) The change to the method of assigning costs to inventories impacts the timing of when costs are allocated to inventories and when they are released to cost of goods sold and 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 March 31, 2022 has been restated from \$145,578 to \$177,513 and the amount of depreciation included in cost of goods sold has been restated from \$239,592 to \$207,657 (see note 6). The amount of inventories expensed to cost of goods sold during the three month period ended March 31, 2022, has been restated from \$2,205,858 to \$1,982,922.

Impact on Condensed Interim Consolidated Statements of Changes in Equity

Three Months Ended March 31, 2022	Previously Reported \$	Adjustment \$	Restated \$
Retained earnings at December 31, 2021	5,958,984	522,978 (b)	6,481,962
Net income and comprehensive income	1,996,288	(183,359)	1,812,929
Retained earnings at March 31, 2022	7,955,272	339,619 (b)	8,294,891

b) The adjustment to retained earnings for the three month period ended March 31, 2022, as previously reported, reflects the impact on opening retained earnings at December 31, 2021 (refer to Note 3 of the audited consolidated financial statements for the year ending December 31, 2022) offset with the impact from the change in net income and comprehensive income for the three month period ended March 31, 2022.

Impact on Condensed Interim Consolidated Statements of Cash Flows

Three Months Ended March 31, 2022	Previously Reported \$	Adjustment \$	Restated
Operating Activities:			
Net income	1,996,288	(183,359)	1,812,929
Adjustments for items not involving cash : Deferred income tax expense	617,623	(56,728)	560,895
Changes in Non-Cash Working Capital Items :			
Inventories	(100,458)	240,087	139,629

There is no impact to cash flows other than the presentation of line items within the operating activities section in the consolidated statement of cash flows. 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 period:

	March 31,	December 31,
	2023	2022
	\$	\$
Raw materials	852,556	864,717
Work in progress	2,816,864	2,527,445
Finished goods	576,085	364,878
	4,245,505	3,757,040

Inventories expensed to cost of goods sold during the three month period ended March 31, 2023, are \$1,758,835 (March 31, 2022, *Restated* - \$1,982,922).

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 13 (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 \$741 has been included in general and administration expense for the three month period ended March 31, 2023 (March 31, 2022 - \$741) (see note 13 (a)).

Cost of licences	\$
Balance - December 31, 2022	44,439
Additions	_
Balance - March 31, 2023	44,439
Accumulated amortization	
Balance - December 31, 2022	31,851
Amortization	741
Balance - March 31, 2023	32,592
Net book value	
Balance - March 31, 2023	11,847
Balance - December 31, 2022	12,588

6. PROPERTY AND EQUIPMENT

	Equipment						
	Not Available	Manufacturing	Office	Computer	5 " "	Leasehold	-
	For Use	Equipment	Equipment	Equipment	Buildings	Improvements	Total
Cost	\$	\$	\$	\$	\$	\$	\$
December 31, 2022	1,982,124	12,501,368	327,638	594,367	3,699,885	8,730,885	27,836,267
Additions	2,851	17,064	899	3,829	-	-	24,643
March 31, 2023	1,984,975	12,518,432	328,537	598,196	3,699,885	8,730,885	27,860,910
Accumulated Depreciation							
December 31, 2022	-	6,562,627	279,056	486,792	1,351,397	2,954,640	11,634,512
Additions	-	212,816	2,467	8,129	96,752	164,348	484,512
March 31, 2023	-	6,775,443	281,523	494,921	1,448,149	3,118,988	12,119,024
Carrying Amount							
March 31, 2023	1,984,975	5,742,989	47,014	103,275	2,251,736	5,611,897	15,741,886
December 31, 2022	1,982,124	5,938,741	48,582	107,575	2,348,488	5,776,245	16,201,755

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold \$	Inventory \$	General and administration	Total \$
Three Months Ended March 31, 2023	117,979	271,472	95,061	484,512
Three Months Ended March 31, 2022 Restated	207,657	177,513	76,545	461,715

Included in the net carrying amount of property and equipment at March 31, 2023, are right-of-use assets relating to buildings, in the amount of \$2,251,736 (December 31, 2022 - \$2,348,488).

Included in the carrying amount of leasehold improvements is \$1,059,707 (December 31, 2022 - \$1,059,707) and included in the carrying amount of equipment not available for use is \$1,984,975 (December 31, 2022 - \$1,982,124) 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 March 31, 2023, 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%.

Three	March 31, 2023	Year Ended December 31, 2022 \$
Balance at beginning of period	2,619,037	2,648,917
Additions	-	269,229
Interest expense	34,163	129,584
Lease payments	(120,351)	(428,693)
Balance at end of year	2,532,849	2,619,037
Less current portion	381,455	370,460
Non-current portion	2,151,394	2,248,577

Future minimum lease payments at March 31, 2023, are as follows:

	Within one year \$	One to five years	More than five years \$	Total \$
Lease payments	506,406	1,763,519	729,142	2,999,067
Finance charges	124,951	302,931	38,336	466,218
Net present values	381,455	1,460,588	690,806	2,532,849

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 resulted in a \$269,229 addition to the lease liability and a corresponding increase to the right of use asset for buildings.

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

	2023	2022
Three Months Ended March 31,	\$	\$
Short-term leases	6,494	6,139

At March 31, 2023, the Company was committed to short term leases and the total commitment at that date was \$26,574 (December 31, 2022 - \$33,068).

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

	Three Month March 31,		Year Ended December 31, 2022	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance at beginning of the period	78,233,177	16,694,625	77,685,843	16,557,401
Stock options exercised	20,000	3,087	547,334	137,224
Balance at end of the period	78,253,177	16,697,712	78,233,177	16,694,625

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 three month period ended March 31, 2023, the Company granted 740,000 (March 31, 2022 – 150,000) 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 2023 was 3.28% (2022 – 1.61%), the weighted average expected volatility was 65% (2022 – 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 (2022 – 5 years), the forfeiture rate was 0% (2022 – 0%), the weighted average share price was \$0.62 (2022 - 0.44), the weighted average exercise price was 0.62 (2022 - 0.44), and the expected dividends were nil (2022 – nil). The weighted average grant date fair value of options granted in the three month period ended March 31, 2023, was 0.35 (2022 - 0.24) per option.

The share-based payments expense recorded during the current period relating to options granted in 2023, 2022, and 2021 is \$134,083 (during 2022 relating to options granted in 2022, 2021 and 2020 - \$14,914).

A summary of the status of the Company's stock options at March 31, 2023 and December 31, 2022 and changes during the periods ended on those dates is as follows:

	Three Months Ended March 31, 2023		Year Ended December 31, 2022	
		Weighted		Weighted
	Number of	Average	Number of	Average
	Options	Exercise Price	Options	Exercise Price
		\$		\$
Outstanding at beginning of period	2,742,999	0.67	2,990,333	0.56
Granted	740,000	0.62	450,000	0.51
Exercised	(20,000)	0.10	(547,334)	0.15
Forfeited	-	-	(150,000)	0.64
Outstanding at end of period	3,462,999	0.66	2,742,999	0.67
Exercisable at end of period	2,709,666	0.68	2,432,999	0.69

Stock options outstanding are as follows:

			Contractual	Number of	Number of
Fair Value	Exercise	Year of	Life Remaining	Options	Options
\$	Price \$	Expiration	(years)	Outstanding	Exercisable
0.35	0.62	2028	4.8	740,000	246,667
0.32	0.56	2027	4.3	150,000	50,000
0.30	0.52	2027	4.1	150,000	50,000
0.24	0.44	2027	3.9	150,000	100,000
0.35	0.64	2026	3.5	30,000	20,000
0.21	0.36	2025	1.8	291,333	291,333
0.25	0.39	2024	0.8	294,666	294,666
0.47	0.50	2028	4.8	195,000	195,000
0.56	0.59	2027	4.6	90,000	90,000
1.22	1.30	2027	4.1	10,000	10,000
1.65	1.75	2027	3.8	400,000	400,000
0.34	0.36	2025	2.1	150,000	150,000
0.47	0.50	2025	1.8	100,000	100,000
0.60	0.64	2025	1.8	562,000	562,000
0.37	0.27	2024	1.6	150,000	150,000
				3,462,999	2,709,666
Weighted Avera	age Contractu	al Life Remainir	ng	3.1	2.7

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 three month period ended March 31, 2023 or the year ended December 31, 2022, and there are no RSU's outstanding during those periods.

Of the 1,000,000 RSU's authorized for grant under the RSU plan, at March 31, 2023, 370,000 RSU's are available for grant (December 31, 2022 – 370,000).

e. Contributed Surplus

	Three Months Ended March 31, 2023	Year Ended December 31, 2022
	\$	\$
Balance at beginning of the period	4,714,404	4,680,690
Share-based payments (note 8 (c))	134,083	89,648
Stock options exercised	(1,087)	(55,934)
Balance at end of the period	4,847,400	4,714,404

9. RELATED PARTY TRANSACTIONS

Related party transactions during the periods are as follows:

	2023	2022
Three Months Ended March 31,	\$	\$_
Key management salaries, short-term benefits, consulting fees, and director fees	441,494	261,578
Key management personnel share-based payments	93,159	13,568
Research and development expenditures paid to Angiogenesis Foundation for which a director of the Company is the CEO of the		
Foundation	103,388	-
	2023	2022
Balance as at March 31,	\$	\$
Amount payable to directors	_	45,541

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

	2023	2022
Three Months Ended March 31,	\$	\$
Interest on lease liabilities	33,800	33,035
Royalties	55,000	55,000
	88,800	88,035

11. OTHER (INCOME) EXPENSE

	2023	2022
Three Months Ended March 31,	\$	\$_
Foreign exchange loss	25,383	106,798
Other (income) expense	(121,258)	16,240
	(95,875)	123,038

12. EMPLOYEE BENEFITS EXPENSE

	2023	2022
Three Months Ended March 31,	\$	\$
Employee benefits	1,382,881	1,024,075

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, sales and marketing, and other expenses.

In the three month period ended March 31, 2023, employee benefits expense has been allocated as follows: \$632,115 to general and administration expense (2022 - \$396,160), \$319,487 to cost of goods sold (2022 - \$331,411), \$311,279 to research and product development expense (2022 - \$296,504) and \$120,000 to other expense (2022 - \$Nil).

13. 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.

14. 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:

	2023	2022
Three Months Ended March 31,	\$	\$
United States	785,821	4,192,890
Germany	2,645,763	1,585,756
China	35,810	375,524
Other	19,938	10,464
Canada	7,479	6,990
	3,494,811	6,171,624

During the three month period ended March 31, 2023, the Company had export sales to one major distributor of the Company's products in the aggregate amount of \$3,242,107 representing 93% of total revenue (2022 - \$5,822,733 representing 94% 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.

15. 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.

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 95% of trade receivables are due from one distributor at March 31, 2023 (December 31, 2022 – 93% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	March 31,	December 31,
	2023	2022
	\$	\$
Not yet due	2,059,239	1,567,892
Less than 30 days past due	851,999	1,226,880
Less than 60 days past due, more than 30 days past due	-	25,528
More than 60 days past due	-	-
Total	2,911,238	2,820,300

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

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company-wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward-looking estimates. The expected credit losses calculated for March 31, 2023 and December 31, 2022 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 \$12,563,469 at March 31, 2023 (December 31, 2022 - \$13,810,998) 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 March 31, 2023:

	within 1 year	1 to 3 years	3 to 5 years	over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued					
liabilities	1,083,571	-	_	-	1,083,571

c) Market risk

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

1. Foreign currency risk

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

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company. The amounts have been translated based on the exchange rate at March 31, 2023.

	Carrying	Foreign Exchange Risk (CDN)		
Amount		-1%	+1%	
	(USD)	Net Income	Net Income	
Financial assets				
Trade receivables	2,151,093	29,111	(29,111)	
Financial liabilities				
Accounts payable and accrued liabilities	325,401	(4,404)	4,404	
Total increase (decrease)		24,707	(24,707)	

The carrying amount of trade receivables and accounts payable and accrued liabilities in USD represents the Company's exposure at March 31, 2023.

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.

16. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the period ended March 31, 2023.

17. INCOME (LOSS) PER COMMON SHARE

	2023	2022
Three Months Ended March 31,		Restated
Net (loss) income for the period for basic and diluted earnings per share calculation	(\$385,050)	\$1,812,929
Weighted average number of common shares outstanding Effect of dilutive stock options	78,251,844 -	77,686,576 646,759
Diluted weighted average number of common shares	78,251,844	78,333,335
Income per share - basic	(\$0.00)	\$0.02
Income per share - diluted	(\$0.00)	\$0.02

As the Company was in a net loss position for the three month period ended March 31, 2023, the impact of the conversion of convertible stock options is anti-dilutive.

For the three month period ended March 31, 2022, 1,637,000 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 period.