CEAPRO

Nature Enhancing Life™

TSX-V: CZO

Annual Report 2015

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CEAPRO
Nature Enhancing Life™

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.

Letter to Shareholders

Dear Fellow Shareholders

We are very pleased to report that 2015 was the best year in Ceapro's history on all fronts. From a financial perspective, we delivered record results where year over year revenues and net profit increased by 20% and 209%, respectively.

These financial results were achieved mostly due to an all-time increased demand for our value driver beta glucan, especially in Asia, as well as due to major improvements in our manufacturing processes and the strengthening of the US dollar compared to the CDN dollar.

From an operations perspective, we produced 30% more than the previous year in order to respond to the increased market demand as well as to comply with strict requirements from major customers for the maintenance of high inventory levels during a transition period of a manufacturing site. This remarkable increased volume of production was achieved at a time when much effort was dedicated to the advancement of the production area of our new state-of-the-art manufacturing facility.

Following successful results obtained with our Pressurized Gas Expansion (PGX) Technology as well as to take advantage of improved manufacturing processes, we advanced the strategic decision to redefine the scope of the construction and expand the production area of the new site by 10,000 square feet. Ceapro's new 30,000 square-foot bio-processing extraction site in Edmonton will then house a commercial and demonstration scale PGX skid and a custom designed ethanol recycling system which will make Ceapro a "greener" Company.

Keeping the business up and running while implementing a special project is always a major challenge. We are thrilled with the following key achievements in 2015 which we fully credit to our remarkable team:

- Financial Results vs. 2014

Total Sales	$10,667,000 vs. $8,890,000
Income from Operations	$ 3,630,000 vs. $ 2,000,000
Net Profit	$ 4,922,000 vs. $ 1,594,000
Cash from Operations	$ 3,982,000 vs. $ 2,135,000

- Closed a non-brokered private placement of $960,000 under the form of convertible debenture;
- Signed a financing agreement with Agriculture Financial Services Corporation for a commercial financing of up to $900,000;
- Received a funding contribution of $800,000 from Alberta Innovates Bio Solutions for the scale-up of our PGX Technology at the commercial and demonstration level;
- Awarded a research grant from the National Research Council of Canada-Industrial Research Assistance Program (NRC-IRAP) for non-repayable funding contribution of up to a maximum of $350,000 for the design, implementation and testing of a demonstration skid for its proprietary PGX platform technology;
- Strengthened the Company's balance sheet pursuant to debt settlement agreements with each Director and issued 273,540 common shares to fully settle the debt;
- Expanded the Company's license agreement with the University of Alberta to include worldwide rights to develop and commercialize PGX Technology in all industrial fields;

- Signed a license agreement with Alberta Rhodiola Rosea Growers Organization (ARRGO) for the continuity of a research project with flagship product, avenanthramides;
- Presented a highly successful company overview and the unique advantages of Ceapro's PGX drying technology platform at prestigious conferences (International Congress on Engineering and Food (ICEF) in Qubec City; 12th Annual BIO Congress on Industrial Biotechnology in Montreal; 2015 Composites at Lake Louise Conference in Alberta);
- Appointed seasoned pharmaceutical executive, Dr. Ulrich Kosciessa to the Board of Directors;
- Utilized the Company's PGX platform to obtain favorable lab scale level results from biopolymer samples provided by numerous sources;
- Advanced the strategic decision to redefine the scope of the construction of Ceapro's new 30,000 square-foot bioprocessing extraction manufacturing facility in Edmonton, Alberta, to include an expanded production area specifically designed to house an ethanol recycling system and a commercial and demonstration scale PGX skid; and
- Explored potential strategic alliances with multi-national companies related to the development of beta glucan as a nutraceutical as well as to the worldwide rights for PGX in all industrial applications.

Subsequent to year-end

- Received issuance of a U.S. patent for Ceapro's unique and disruptive enabling PGX technology covering proprietary methods and use of micro- and nano-sized particles generated by applying PGX supercritical fluid technology;
- Signed a research agreement with McMaster University for testing of materials using PGX Technology; and
- Renewed a major distribution agreement with long-time partner, Symrise AG.

Looking forward, the success of our two pharmaceutical grade active ingredients, beta glucan and avenanthramides, affords us the opportunity to expand development into the profitable nutraceutical and pharmaceutical sectors where we plan to launch our first two clinical studies this year with these two important value drivers.

Additionally, we believe our unique and disruptive enabling PGX technology will be another important part of the continued success of Ceapro. The opportunities for the PGX platform are almost endless. We fully expect this technology will expand our reach into additional high-value programs and facilitate beneficial strategic collaborations in a broad range of industrial applications.

Ceapro is poised for a transformational year in 2016. We are more confident than ever that Ceapro has the key to new successes by offering: a de-risked business model with a base business in the cosmetic sector, which provides a revenue stream; well advanced near-term catalysts with dry beta glucan as a potential functional food/nutraceutical; and, long-term catalysts with dry formulations of avenanthramides for the nutraceutical and/or pharmaceutical markets.

This is an exciting time for all of us at Ceapro.

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

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

GLENN ROURKE, MBA, ICD.D
CHAIRMAN OF THE BOARD

April 13, 2016

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.

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 activities over the last few years have focused on overcoming these challenges and we have been thrilled with the results to date.

Beta glucan and avenanthramides are the two bio actives extracted from oats that are at the core of our revenue base business in cosmeceuticals. They are currently sold under liquid formulations.

Given their well-known properties respectively as cholesterol reducer and anti-inflammation products, the challenge was to develop them into formulations that would comply with nutraceutical and/or pharmaceutical grade requirements. In order to achieve these goals and to improve efficiencies, we are pleased to report on the successful development and use of 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 need to produce large quantities through improved processes. While we are currently working on a batch basis in the current facility, the goal is to turn these batch processes into more efficient semi-continuous ones in the new manufacturing facility in South Edmonton. This new plant will also house an ethanol recycling system making Ceapro a greener company.

Malting Technology

The initial objective of this project was to scale-up from the lab scale to an industrial level a patented pre-commercialization process method in-licensed from Agriculture and Agri-Food Canada to increase the concentration of oats actives, called Avenanthramides (AVs) found uniquely in oats in very small quantities.

Following two years of work, Ceapro's researchers were able to scale-up a cost effective improved method to

significantly increase the AVs content in oats. The method was successfully developed in the lab and the first successful scale-up test was conducted in the Alberta Rhodiola Rosea Growers Organization (ARRGO) facility in Thorsby, Alberta. This first trial paved the way for the production in 2015 of three batches of AVs at commercial scale level in the existing facility. Stability and efficacy studies need to be conducted on this resulting high AVs product to make sure that the specifications are the same as the ones with existing Ceapro's marketed formulations.

High Purity of Avenanthramides

The objective of this project was to generate a new product with a unique class of avenanthramides (AVs). The scientific literature reports that AVs offer natural alternatives to treat diseases such as atherosclerosis and inflammatory bowel disease. The issue is that they are only available at 5-150 ppm in oats and there is no established method to concentrate and purify them on a large manufacturing scale to conduct controlled large clinical studies. Prior to 2013, Ceapro had determined which solvent system best dissolves AVs and which solvent system ensures a longer AVs shelf life. Ceapro had to purify AVs using an innovative scale-up chromatography technology. However, it was not known if this technology was able to recover the theoretical amount of AVs extrapolated from laboratory trials. Such experiments would allow Ceapro to prove the cost efficiency of this method while providing additional high AVs powder that will allow Ceapro to conduct clinical trials. In turn, clinical trials would allow Ceapro to incorporate AVs into new dry formulations.

As a result of this work, Ceapro's researchers proved that it was possible to scale-up the chromatography technology and demonstrated that the theoretical recovery and binding capacity extrapolated from laboratory trials is achievable on a pilot scale. Ceapro also generated vital stability data which proves that dried purified AVs are very stable even in extreme storage environments. During the course of these experiments, Ceapro researchers generated high purity dried AVs powder that was sent for physical characterization and which will be used in the future to conduct clinical trials. In turn, clinical trials will allow Ceapro to incorporate AVs into new formulations to develop natural alternatives to treat diseases such as atherosclerosis and inflammatory bowel disease.

Pressurized Gas eXpansionTechnology (PGX)

The objective of this project was to further scale-up and optimize the novel sustainable drying technology based on the use of **P**ressurized **G**as e**X**pansion liquids – hence the technology is called **PGX** Technology. The PGX Technology allows converting Ceapro's liquid aqueous beta-glucan (BG) product into highly soluble dry microfibrils or free-flowing powder with tuneable particle size distribution. Such dry BG product has typically been difficult or not economically feasible to produce with conventional techniques (spray drying, freeze drying). The PGX drying process can reduce the company's carbon footprint, increase the shelf-life of BG and lead to novel high-value products including functional foods, nutraceuticals, cosmeceuticals and pharmaceuticals. The PGX Technology can be used for drying of aqueous solutions of a wide range of biopolymers and bioactives at moderate temperatures (40°C) as well as impregnation of biopolymers with bioactives at mild operating conditions. The technology has been presented at national and international conferences and received great feedback and many inquiries from other industries. The technology has been licenced from the University of Alberta for all industrial applications.

In previous years (2010-2012), the technology was scaled-up from lab scale to a 12L pilot plant scale at the BioFood-Tech Center in PEI. From 2012 to 2014, we further developed and scaled-up the technology with a Boston based Company where we custom made a test unit for pilot scale flow rates and successfully optimized the performance of the PGX process up to flow rates of 200 kg/hr. This enabled Ceapro to have sufficient material for application development using PGX and BG to conduct impregnation studies combining beta glucan with other bioactives and potential drugs.

In order to handle large quantities of material, we also developed the PGX process from a batchwise to a semi-continuous process. All those tests were successful and in 2015 we started designing and building a larger pilot/demo skid which will be housed in our new manufacturing site in Edmonton, Alberta.

This PGX Technology is a game-changing technology. We were able to demonstrate that other biopolymers that are readily available (pectin, starch, gums...) can be transformed into high value advanced material for applications in cosmetics, functional foods, nutraceuticals and perhaps pharmaceutical applications. With Crystalline Nano Cellulose, we were able to generate aerogels, open porous, light-weight materials – that cannot be generated by conventional spray-drying. The CNC aerogels receive a lot of attention in Canada, US, and Europe, with national and international companies and research institutes already inquiring about PGX CNC samples for application development.

There is a tremendous value in these new enabling technologies, a value that is complementary to Ceapro's traditional bioprocessing business.

We expect to be able to commercialize some of our development projects into new products for the medicinal food, nutraceutical, or pharmaceutical markets. Our next stories provide an update on these projects and what it means for Ceapro.

From Field to Formulation

Personal Care: Our Base Business

Our strategic path is clear: we will grow our customer base and presence in the personal care cosmetic market while continuing to explore and clinically validate new product applications for our value drivers, avenanthramides and beta glucan under different formulations.

AVENANTHRAMIDES

Ceapro's flagship product, avenanthramides, is a group of polyphenol compounds found exclusively in oats. This group of molecules that work synergistically 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.

One of the challenges to further penetrate the personal care market is the relatively small supply of commercial oats that have adequate quantities of avenanthramides to be commercially profitable and therapeutic. Reliability of supply is also a challenge since the oat quality will vary widely from year to year; thus, making security of supply an issue. In 2012, Ceapro entered into two technology agreements with Agriculture and Agri Food Canada (AAFC) to address this situation. The first is an oat process technology that, when applied to a certain oat variety post-harvest, can drastically increase the avenanthramide content from non-commercial amounts to amounts well beyond what Ceapro has ever purchased on the open market. The second agreement provided access to a particular new oat variety (non-GMO), which consequently requires Ceapro to grow the variety.

Update and Ceapro's Opportunity

In 2015, using the AAFC technology, Ceapro boosted the concentrations of avenanthramides at a commercial scale, from nearly non-detectable levels up to levels more than double what Ceapro traditionally extracts. We then successfully ran three batches of our stimulated or "malted" (non-GMO) oat at commercial scale test extractions levels.

The resulting second generation of avenanthramides is a clearer solution that could be more attractive to the cosmetic market. Stability and efficacy tests will be conducted in 2016. Should the outcome be favorable, the process will be further validated and incorporated into our production at the new state-of-the-art facility.

BETA GLUCAN

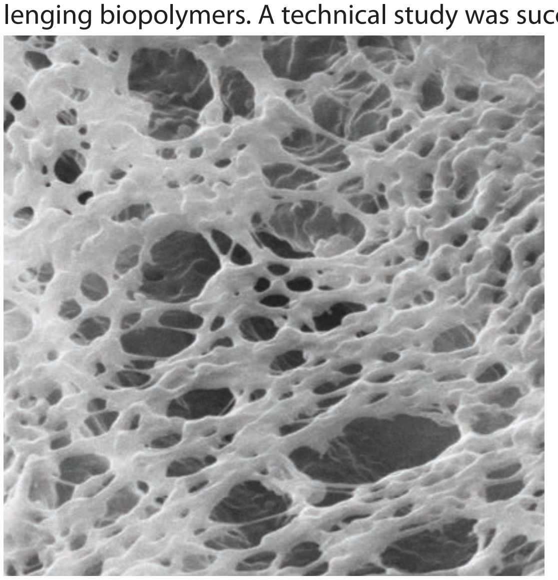
Ceapro's value driver product, beta glucan, is known as the anti-aging active ingredient included in well-known brands. Studies have shown that beta glucan is highly effective in stimulating collagen synthesis and can play a prominent role in skin restructuring and wound healing.

Beta glucan extracted from oat 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 with formulations of beta glucan has increased the interest in determining its potential as a delivery platform.

Pressurized Gas eXpansion (PGX) Technology – Background and Update

Ceapro's oat beta glucan is currently sold as a liquid formulation. In order to fully exploit the potential of beta glucan, Ceapro embarked in 2012 in a major project to develop dry formulations. Ceapro then elected to conduct research work by using a technology developed at the University of Alberta. Such technology, based on supercritical conditions, enabled the successful development of dry formulations of beta glucan at the lab scale level.

In 2014, the goal was to establish the broad application potential of the PGX technology to effectively dry challenging biopolymers. A technical study was successfully conducted with the prestigious Massachusetts Institute of Technology to impregnate Coenzyme Q10 (CoQ10) onto dry beta glucan. This very exciting result opened up many opportunities to develop new products and superior formulations for the pharmaceutical and nutraceutical sectors, in line with our stated goals.



This enabling technology was also tested on nano crystalline cellulose (CNC); the PGX technology produced a nano-particle aerogel product, something that was not possible with traditional spray drying. Throughout the year, Ceapro demonstrated the ability of the PGX technology to work and add value for other industries who face drying challenges with their biopolymers and biomaterials. In 2015, Ceapro has launched a "Beta Glucan/CoQ10" project with the University of Alberta to continue our transition towards other sectors. In addition, Ceapro continues to plan for its PGX demonstration plant.

From Plant to Pill

Healthcare: Our Near-Term and Long-Term Catalysts

Our strategic path is clear: while growing our customer base and presence in the personal care market, we will explore and clinically validate new product applications for our value drivers, avenanthramides and beta glucan in nutraceutical and pharmaceutical markets.

AVENANTHRAMIDES

In addition to cosmetics applications, it has been suggested that Ceapro's flagship product, avenanthramides, when taken orally could be beneficial in serious conditions like inflammatory bowel syndrome, atherosclerosis, colon cancer and joint inflammation. These findings led to the idea that avenanthramides could be developed as an active pharmaceutical ingredient (API).

Through the use of enabling technologies described in the previous sections, Ceapro successfully developed a highly purified and well characterized pharmaceutical grade powder formulation to be used in pre-clinical and clinical trials in targeted indications.

Update and Ceapro's Opportunity

In 2015, Ceapro provided high concentrations of pharmaceutical grade avenanthramides to a group of researchers from the University of Minnesota to assess the potential anti-inflammatory effect of avenanthramides on exercise-induced inflammation. This was the second clinical study conducted with women on this subject. Results recently published in the European Journal of Applied Physiology demonstrated the bioavailability of avenanthramides, a very favorable side effect profile as well as efficacy as shown by a statistically significant reduction of inflammation biomarkers. These exciting results have triggered the initiation of a third clinical study with both men and women receiving low and very high doses of Ceapro's avenanthramides. Results are expected by year-end.

BETA GLUCAN

Ceapro's value driver product, beta glucan, is also well known for its cholesterol lowering properties as well as modulating glucose metabolism. The high purity of the powder obtained with our Pressurized Gas eXpansion (PGX) technology leads us to the development of beta glucan beyond the personal care market and look at nutraceutical and pharmaceutical markets using beta glucan to target metabolic diseases.

Update and Ceapro's Opportunity

Ceapro continued to set the stage for preclinical studies and further clinical trials for high purity dried oat beta glucan. In 2015, Ceapro has commenced a study with the University of Alberta to develop a prototype of an impregnated complex of Beta Glucan/CoQ10 for the development of a prototype for a functional drink. Results are expected by year-end 2016. In 2016, we also expect to initiate a clinical trial with pharmaceutical grade beta glucan to assess its cholesterol lowering properties.

Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the years ended December 31, 2015 and 2014, the financial position as at December 31, 2015, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 13, 2016. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2015, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2014, 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, 2014. All comparative percentages are between the years ended December 31, 2015 and 2014 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 13, 2016, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

VISION, CORE BUSINESS, AND STRATEGY

Ceapro is incorporated under the Canada Business Corporations Act; and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc., are incorporated under the Alberta Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. On April 1, 2016, the Company completed a vertical amalgamation with its wholly-owned subsidiary Ceapro Veterinary Products Inc.

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

Our products include:

- A commercial line of natural active ingredients, including *beta glucan, avenanthramides (colloidal oat extract), oat powder, oat oil, oat peptides,* and *lupin peptides,* which are marketed to the personal care, cosmetic, medical, and animal health industries through our distribution partners and direct sales; and
- Veterinary therapeutic products, including an *oat shampoo,* an *ear cleanser,* and a *dermal complex/conditioner,* which are manufactured and marketed to veterinarians in Japan and Asia, through agreements with Daisen Sangyo Co. Ltd.

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

- A potential platform using our *beta glucan* formulations to deliver compounds used for treatments in both personal and healthcare sectors;
- A variety of novel enabling technologies including Pressurized Gas Expansion drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds;

- The development of a new oat variety and certain technologies to increase the content of avenanthramides to high levels to enable new innovative products to be introduced to new markets including medicinal foods, nutraceuticals, and botanical drugs; and
- *CeaProve*®, a diabetes test meal to screen pre-diabetes and to confirm diabetes diagnosis.

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

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

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

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

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

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

RISKS AND UNCERTAINTIES

Biotechnology companies are subject to a number of risks and uncertainties inherent in the development of any new technology. General business risks include: uncertainty in product development and related clinical trials and validation studies, the regulatory environment, for example, delays or denial of approvals to market our products, the impact of technological change and competing technologies, the ability to protect and enforce our patent portfolio and intellectual property assets, the availability of capital to finance continued and new product development, and the ability to secure strategic partners for late stage development, marketing, and distribution of our products. To the extent possible, we pursue and implement strategies to reduce or mitigate the risks associated with our business.

The Company has exposure to financial instrument and other risks as follows:

A) CREDIT RISK

Trade and other receivables

The Company makes sales to customers 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 two customers at December 31, 2015 (2014 – 95% from two customers) and all trade receivables at December 31, 2015 and 2014 are current. These main customers are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $1,681,125 at December 31, 2015 (2014 – $272,845) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

B) LIQUIDITY RISK

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

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

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	2,005,611	–	–	–	2,005,611
Long-term debt	1,086,966	1,983,524	457,496	–	3,527,986
Convertible debentures	1,036,800	–	–	–	1,036,800
CAAP loan	83,884	167,767	167,767	83,884	503,302
Total	**4,213,261**	**2,151,291**	**625,263**	**83,884**	**7,073,699**

C) MARKET RISK

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

1. Foreign currency risk

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

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

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (USD)	
		– 1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial assets			
Accounts receivable	389,447	3,894	(3,894)
Financial liabilities			
Accounts payable and accrued liabilities	152,403	(1,524)	1,524
Total increase (decrease)		2,370	(2,370)

	CARRYING AMOUNT (EURO)	FOREIGN EXCHANGE RISK (EURO)	
		– 1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial liabilities			
Long-term debt	633,390	(6,334)	6,334
Total (decrease) increase		(6,334)	6,334

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at December 31, 2015.

2. Interest rate risk

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

D) SHARE PRICE RISK

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

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

E) PEOPLE AND PROCESS RISK

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

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

F) LOSS OF KEY PERSONNEL

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

G) INTERRUPTION OF RAW MATERIAL SUPPLY

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

H) ENVIRONMENTAL ISSUES

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

I) REGULATORY COMPLIANCE

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

FUTURE ACCOUNTING POLICIES NOT YET ADOPTED

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

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

IFRS 9 "FINANCIAL INSTRUMENTS"

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

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

IFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS"

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

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

IFRS 16 "LEASES"

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

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

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013

CONSOLIDATED INCOME STATEMENT

$000S EXCEPT PER SHARE DATA	**2015**	**%**	2014	%	2013	%
Total revenues	**10,668**	**100%**	8,890	100%	6,524	100%
Cost of goods sold	**3,639**	**34%**	4,126	46%	3,425	52%
Gross margin	**7,029**	**66%**	4,764	54%	3,099	48%
Research and product development	**625**	**6%**	578	7%	731	11%
General and administration	**2,519**	**24%**	1,984	22%	1,709	26%
Sales and marketing	**8**	**0%**	14	0%	85	1%
Finance costs	**247**	**2%**	188	2%	127	2%
Income from operations	**3,630**	**34%**	2,000	22%	447	7%
Other operating income (loss)	**204**	**2%**	(406)	– 5%	(271)	– 4%
Income before tax	**3,834**	**36%**	1,594	18%	176	3%
Income tax recovery	**1,088**	**10%**	–	0%	–	0%
Net income	**4,922**	**46%**	1,594	18%	176	3%
Basic net income per common share	**0.080**		0.026		0.003	
Diluted net income per common share	**0.075**		0.025		0.003	

During the year ended December 31, 2015, the Company recognized previously unrecognized net deferred tax assets which is the primary reason for an income tax benefit of $1,088,000 included in net income. Management recognized the net deferred tax assets to the amount that it has determined is probable to be realized and has based this determination on estimated future taxable profit. In making this estimate, management considered projected future taxable income, the scheduled reversal of deferred tax assets, and tax planning strategies.

The following sections discuss the remaining results from operations.

REVENUE

	Year Ended December 31,			**Quarter Ended December 31,**		
$000s	**2015**	2014	CHANGE	**2015**	2014	CHANGE
Total revenues	**10,668**	8,890	20%	**3,435**	2,059	67%

PRODUCT SALES

Product sales in the year ended December 31, 2015 represented the highest sales volume in the Company's history and revenue increased 20% over the prior year. The overall sales growth and revenue increase was primarily due to an increase in demand for beta glucan in Europe and Asia and due to the stronger U.S. dollar relative to the Canadian dollar throughout the year.

Sales in the fourth quarter of 2015 increased by $1,376,000 or 67% primarily as a result of higher sales volume of beta glucan and the strengthening of the U.S. dollar.

EXPENSES

COST OF GOODS SOLD AND GROSS MARGIN

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2015**	2014	CHANGE	**2015**	2014	CHANGE
Sales	**10,668**	8,890	20%	**3,435**	2,059	67%
Cost of goods sold	**3,639**	4,126	− 12%	**831**	1,274	− 35%
Gross margin	**7,029**	4,764	48%	**2,604**	785	232%
Gross margin %	**66%**	54%		**76%**	38%	

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

During the year ended December 31, 2015, cost of goods sold decreased by $487,000 or 12% from $4,126,000 in 2014 to $3,639,000 in 2015. The decrease in cost of goods sold has occurred even though sales have increased by 20% which has contributed to an overall increase of 48% in the gross margin. The gross margin percentage also increased from 54% in 2014 to 66% in 2015 primarily as a result of the Company continuing to experience operating efficiencies in the plant, from being able to source favourable feedstock, from continuing to implement cost control measures over the raw materials used in production, and as a result of the strengthening U.S. dollar which positively impacts sales that are transacted in US currency but does not increase cost of sales which are primarily transacted in Canadian dollars. The increase in the gross margin percentage from these factors has overcome the challenge to the gross margin percentage experienced from the higher production and quality control salary expenses from additional production staff hired and from the large non-cash share-based payment accounting charge that resulted from granting stock options to production employees in the first quarter of fiscal 2015. Although stock options were also granted to production employees in the first quarter of fiscal 2014, the accounting charge was significantly lower in the prior year because the Company's share price at that time was significantly lower.

During the fourth quarter of 2015, cost of goods sold decreased by $443,000 or 35% from $1,274,000 in 2014 to $831,000 in 2015. Consistent with the trend observed for the entire year, cost of goods sold has decreased even though sales have increased which has contributed to a higher gross margin and gross margin percentage. Although the gross margin percentage increase is due to the same factors for the entire year, the percentage increase is even higher compared to the prior year due to better quality of the feedstock in the fourth quarter of 2015 compared to the one obtained in the fourth quarter of 2014.

RESEARCH AND PRODUCT DEVELOPMENT

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2015**	2014	CHANGE	**2015**	2014	CHANGE
Salaries and benefits	**342**	301		**96**	(45)	
Regulatory and patents	**137**	138		**30**	25	
Other	**122**	114		**11**	2	
	601	553	9%	**137**	(18)	− 861%
Product development – CeaProve®	**24**	25	− 4%	**3**	3	0%
Total research and product development expenditures	**625**	578	8%	**140**	(15)	− 1033%

During the year ended December 31, 2015 research and development expenses before CeaProve® increased by 9% or $48,000 in comparison with the same period in 2014. The increase reflects an increased investment into research and development projects which was partially offset by grant funding received in the year, as well as an increase in salary costs. Salary costs are impacted partially from the capitalization of salaries for some key staff who are working on the new production process design for the new manufacturing facility, and partially from grant funding received for some key staff who are working primarily on the Company's Pressurized Gas Expanded (PGX) Technology. The capitalization of salaries for key staff who are working on the new production process design was initially recorded in the fourth quarter of 2014 which resulted in an overall credit to the salaries and benefits expense for that period simply due to the timing of the capitalization adjustment.

The CeaProve® expenditures for fiscal 2015 and fiscal 2014 strictly relate to the maintenance of patents, and the difference between the current periods and the comparative periods relate to the timing of patent renewals.

GENERAL AND ADMINISTRATION

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2015**	2014	CHANGE	**2015**	2014	CHANGE
Salaries and benefits	**704**	597		**120**	147	
Consulting	**335**	291		**136**	89	
Board of directors compensation	**361**	181		**77**	53	
Insurance	**111**	113		**30**	36	
Accounting and audit fees	**79**	90		**22**	16	
Rent	**91**	116		**23**	12	
Public company costs	**232**	68		**54**	22	
Travel	**107**	130		**23**	30	
Depreciation	**174**	82		**42**	43	
Legal	**179**	187		**2**	113	
Other	**146**	129		**37**	47	
Total general and administration expenses	**2,519**	1,984	27%	**566**	608	-7%

General and administration expenses for the year ended December 31, 2015 increased by $535,000 or 27% over the prior year. The increase was partially due to higher salaries and benefits expense as a result of a large non-cash share-based payment accounting charge relating to stock options granted to employees in the first quarter, additional hires, and lump sum payments to a former officer. The increase was also due to higher public company costs as a result of the services provided from an investor relations program that was entered into late in fiscal 2014 and from new communication and website development costs, higher depreciation expense as a result of the commencement of depreciation on leasehold improvements for the completed head office section in the new facility, and higher board of directors compensation expense resulting from the additional non-cash accounting charges recorded for the granting of stock options in the year to new and existing directors. The increase from these costs was partially offset by lower rent expenses compared to the prior year as the Company was previously paying more for the head office in the prior location and during the third quarter of fiscal 2014 moved the head office to the new facility.

During the fourth quarter of 2015, general and administration expenses decreased by $42,000 or 7%. Legal fees were significantly lower in the fourth quarter of 2015 as the AVAC trial was wrapped up early in 2015, whereas in the fourth quarter of 2014 the trial was still ongoing. The lower legal fees were offset by increases in expenses for some of the same reasons as for the year ended December 31, 2015, but also due to higher consulting fees incurred to evaluate alternative funding strategies.

SALES AND MARKETING

	Year Ended December 31,			**Quarter Ended December 31,**		
$000s	**2015**	2014	CHANGE	**2015**	2014	CHANGE
Courses, conferences & advertising	**5**	4		**–**	–	
Other	**3**	10		**1**	1	
Total sales and marketing	**8**	14	− 43%	**1**	1	0%

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

FINANCE COSTS

	Year Ended December 31,			**Quarter Ended December 31,**		
$000s	**2015**	2014	CHANGE	**2015**	2014	CHANGE
Interest on long-term debt	**53**	46		**13**	(51)	
Transaction costs	**25**	18		**7**	5	
Royalties	**50**	48		**–**	–	
Accretion of CAAP loan	**54**	58		**14**	15	
Accretion of convertible debenture	**65**	–		**18**	–	
Interest on royalty financial liability	**–**	18		**–**	–	
	247	188	31%	**52**	(31)	− 268%

Finance costs increased by 31% or $59,000 from $188,000 incurred in the year ended December 31, 2014 to $247,000 incurred in the current year.

Finance costs increased primarily due to the new convertible debentures financing that occurred during the year ended December 31, 2015. Although the interest on the 8% convertible debentures has been capitalized to the new manufacturing facility, the accretion expense for the year of $65,000 remains part of finance costs. This increase in finance costs during the year from the new convertible debenture accretion has been offset by a decrease from having no interest on royalty financial liability expense in 2015. As at December 31, 2014, royalties on the royalty financial liability were fully accrued and therefore no royalty expense was earned on this liability in 2015.

Finance costs for the fourth quarter of 2015 increased by 268% from the comparative quarter in 2014. The significant increase in finance costs in the fourth quarter of 2015 compared to that of 2014 was due primarily to the fact that the Company began to capitalize interest on long-term debt relating to specific borrowings for the new manufacturing facility in the fourth quarter of 2014 so the timing of the capitalization adjustment resulted in a large credit to the expense in that quarter. The increase was also related to the convertible debenture accretion in 2015 that was not present in 2014.

OTHER OPERATING (INCOME) LOSS

	Year Ended December 31,			Quarter Ended December 31,		
$000s	**2015**	2014	CHANGE	**2015**	2014	CHANGE
Foreign exchange loss (income)	**55**	(27)		**(42)**	(6)	
Loss on write-off of licence	**–**	26		**–**	–	
Loss on disposal of property and equipment	**–**	4		**–**	–	
Other loss (income)	**(13)**	(3)		**–**	19	
Plant relocation costs	**357**	406		**90**	112	
Recognition of investment tax credits	**(603)**	–		**(603)**	–	
	(204)	406	– 150%	**(555)**	125	– 544%

During the year ended December 31, 2015, other operating loss decreased by $610,000 or 150% from a loss of $406,000 in 2014 to income of $204,000. The decrease was primarily a result of the recognition of an investment tax credit receivable of $603,000 in 2015, a foreign exchange loss during the year of $55,000 compared to a foreign exchange gain of $27,000 in the comparative year which was offset partially by a one-time charge of $26,000 in the prior year for the write-off of a licence and a decrease in plant relocation costs $49,000 compared to the prior year.

During the year, the Company recorded an investment tax credit receivable of $603,000 related to its qualifying expenditures for scientific research and experimental development costs which have been earned in periods prior to 2015 but not previously recognized. In 2015, the Company determined that there is reasonable assurance, based on estimated future taxable income, that these credits will be realized. In the year investment tax credits are generated, if recognized, they will offset the related expenditures; however, in the current year as the investment tax credits related to prior year expenditures, they have been recognized in other operating (income) loss.

The foreign exchange loss in the current year is primarily due to the foreign exchange loss on the translation of the Company's Euro denominated debt due to a strengthening of the Euro in comparison to the Canadian dollar. In the comparative year, the Euro was weaker relative to the Canadian dollar which resulted in foreign exchange gain relating primarily to the translation of the Euro denominated debt. Foreign exchange loss (income) will also fluctuate between quarters due to fluctuations in the US dollar versus Canadian dollar.

Plant relocation costs represent costs incurred relating to the new manufacturing facility that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized. In the year ended December 31, 2015, these costs are lower than that of the comparative period primarily because the Company moved the head office and research and development departments to the new facility in the second half of fiscal 2014.

DEPRECIATION AND AMORTIZATION EXPENSE

In the year ended December 31, 2015, the total depreciation and amortization expense of $392,000 (2014 – $296,000) was allocated as follows: $177,000 to general and administration expense (2014 – $86,000), $50,000 to inventory (2014 – $24,000), and $165,000 (2014 – $186,000) to cost of goods sold. As the head office and R&D sections of the new facility were completed in the fourth quarter of the year ended December 31, 2014, depreciation of the leasehold improvements relating to the completed sections commenced. As a result the current year's depreciation charge was higher than the prior year.

QUARTERLY INFORMATION

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

	2015				2014			
$000S EXCEPT PER SHARE DATA	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total revenues	**3,435**	**3,079**	**2,439**	**1,714**	2,059	2,445	2,432	1,954
Net income (loss)	**3,452**	**1,006**	**658**	**(194)**	97	690	630	177
Basic net income (loss) per common share	**0.056**	**0.016**	**0.011**	**(0.003)**	0.002	0.011	0.010	0.003
Diluted net income (loss) per common share	**0.052**	**0.016**	**0.010**	**(0.003)**	0.001	0.011	0.010	0.003

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

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

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EMPLOYED

$000s	**December 31, 2015**	December 31, 2014
Non-current assets	**11,857**	6,035
Current assets	**3,846**	1,648
Current liabilities	**(5,203)**	(2,965)
Total assets less current liabilities	**10,500**	4,718
Non-current liabilities	**2,624**	2,626
Shareholders' equity	**7,876**	2,092
Total capital employed	**10,500**	4,718

Non-current assets increased by $5,822,000 due to an acquisition of $4,296,000 of property and equipment (net of grant proceeds) offset by a depreciation provision of $392,000, the recognition of an investment tax credit receivable of $603,000, the recognition of deferred tax assets of $1,259,000, and increasing long-term deposits by $56,000.

Current assets increased by $2,198,000. Cash increased by $1,408,000, trade and other receivables increased by $29,000, prepaid expenses increased by $198,000, and inventories increased by $563,000.

Current liabilities totaling $5,203,000 increased by the net amount of $2,238,000 mostly due to the convertible debenture financing, for which the liability component was $872,000 at December 31, 2015, an increase in deferred revenue of $1,010,000, an increase in trade payables and accrued liabilities of $215,000, an increase in the current portion of long-term debt of $216,000, and the recording of income taxes payable of $95,000 which was offset by a decrease in the employee future benefit obligation of $127,000 from the final payment on the obligation, and a decrease in the royalty interest payable of $43,000 from a final payment of the royalty financial liability obligation.

Non-current liabilities totaling $2,624,000 decreased by the net amount of $2,000 mostly due to a decrease in long-term debt of $84,000 and a decrease in the discounted CAAP loan in the amount of $29,000 which was offset by the recognition of a deferred tax liability in the amount of $112,000.

Equity of $7,876,000 at December 31, 2015 increased by $5,784,000 from equity of $2,092,000 at December 31, 2014 due to recognized share-based compensation of $580,000, an increase from recognizing the equity component of convertible debentures of $106,000, the increase from the exercise of stock options of $86,000, the issuance of shares to settle debt of $90,000, and the recognition of net income of $4,922,000 for the year ended December 31, 2015.

NET DEBT

$000s	**December 31, 2015**	December 31, 2014
Cash and cash equivalents, net of restricted cash	**1,381**	273
Current financial liabilities*	**3,935**	2,675
Non-current financial liabilities*	**2,513**	2,626
Total financial liabilities	**6,448**	5,301
NET DEBT	**5,067**	5,028

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

The Company's net debt increased by $39,000 due a long-term debt increase of $900,000 from a new loan agreement with AFSC, a $72,000 increase in long-term debt from a foreign exchange adjustment and the incurrence of transaction costs on the new loan agreement net of amortization, an increase in accounts payable and accrued liabilities of $215,000, and an increase from a convertible debenture financing which resulted in a liability component of $872,000 at December 31, 2015. These increases were offset by a reduction in long-term debt from repayments of $839,000, a net decrease of $30,000 from a payment on the CAAP loan in excess of accretion, a decrease in royalty related obligations of $43,000, and an increase of non-restricted cash and cash equivalents in the amount of $1,108,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the years ended December 31, 2015 and 2014.

	Year Ended December 31,		Quarter Ended December 31,	
$000s	**2015**	2014	**2015**	2014
Sources of funds:				
Funds generated from operations (cash flow)	**5,068**	2,106	**2,641**	118
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	**728**	256	**364**	87
Changes in non-cash working capital items relating to operating activities	**–**	165	**–**	743
Grant used for capital assets	**80**	295	**–**	84
Share issuance	**86**	142	**29**	22
Convertible debentures	**960**	–	**–**	–
Long-term debt	**900**	1,072	**–**	–
	7,822	4,036	**3,034**	1,054
Uses of funds:				
Purchase of property and equipment	**(1,505)**	(2,337)	**(388)**	(429)
Purchase of leasehold improvements	**(2,701)**	(2,283)	**(1,240)**	(451)
Employee future benefits obligation repayment	**(127)**	(150)	**–**	–
Changes in non-cash working capital items relating to operating activities	**(863)**	–	**(155)**	–
Interest paid	**(223)**	(137)	**(59)**	(28)
Repayment of royalty financial liability	**(43)**	(95)	**–**	18
Transaction costs	**(29)**	–	**–**	–
Repayable CAAP funding	**(84)**	(84)	**(84)**	(84)
Repayment of long-term debt	**(839)**	(630)	**(238)**	(198)
	(6,414)	(5,716)	**(2,164)**	(1,172)
Net change in cash flows	**1,408**	(1,680)	**870**	(118)

Net change in cash flow was an increase of $1,408,000 during the year ended December 31, 2015 in comparison with a decrease of $1,680,000 for the same period in 2014 primarily due to a significant increase in cash flow from operations, more funds raised from financings, and a lower investment made on its new manufacturing facility during the current year, which was partially offset by a higher repayment of long-term debt.

The Company is currently in progress to complete the production area of a new facility which involves substantial capital expenditures for engineering and design, permitting, construction of leaseholds, equipment, as well as other related costs required to meet the strict requirements of major customers. The scope of the original planned manufacturing facility was further redefined throughout fiscal 2015 to take advantage of new manufacturing process design opportunities as well as promising results obtained at lab scale with an enabling technology (PGX). As a result, the overall planned investment for the first phase of the facility was expanded and is currently estimated at $13,800,000 of which the Company has completed and recorded approximately $10,800,000 at December 31, 2015. As a result of the increased scope of the project, the Company had a working capital deficiency of $1,356,375 at December 31, 2015 and will require additional funds from ongoing operations and/or other sources to complete the first phase of the manufacturing facility.

The increase in the planned investment for the first phase incorporates many factors including changes to the design of the manufacturing process, costs relating to the modification and delay of construction activities, foreign exchange effects experienced from equipment purchases during the year to date, and estimated capitalized salaries and borrowing costs. The planned investment total has always been presented exclusive of government programs committed or received representing over $2,000,000 to date which have reduced actual cash outlays significantly.

During the year ended December 31, 2015, financing for completion of the new facility has consisted of a new loan agreement and convertible debenture financing in the first quarter followed by reinvestment of operating profits during the remaining quarters. The Company estimates that the cash flows generated by its operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, ongoing capital investment, and current debt repayment. The Company currently estimates it will need to generate an additional $3,000,000 from ongoing operations and/or other sources to complete the first phase of the new facility which will be expanded by 10,000 square feet to host the PGX technology and an ethanol recycling system.

The Company relies upon revenues generated from the sale of active ingredients, the proceeds of public and private offerings of equity securities and debentures, income offerings, and government funding programs to support the Company's operations. Management is continuing to pursue additional funding from potential strategic alliances with partners, government programs, and other sources to fully fund its anticipated needs. 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 13, 2016 were 62,635,821 (April 21, 2015 – 61,632,281). In addition, 3,401,667 stock options as at April 13, 2016 (November 12, 2014 – 3,881,667) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Subsequent to the year ended December 31, 2015, 145,000 stock options were exercised by an employee for proceeds of $14,500.

GOVERNMENT FUNDING

a) During the year ended December 31, 2012, the Company was approved for a second agreement for non-repayable funding in the amount of $124,000 from AITF. During the current year, the Company received $nil (2014 – $18,333) which was recorded as a reduction of research and project development expenses. This agreement was completed at December 31, 2014.

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

c) During the year ended December 31, 2011, the Company entered into a Contribution Agreement with Alberta Innovates Bio Solutions (AI-Bio Solutions) for a non-repayable grant contribution totaling up to $1,600,000 towards the construction of a new bio-processing facility and subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received $750,000 in 2011, and received $690,000 in 2013. No amounts have been received during the years ended December 31, 2015 or 2014. A final payment of $160,000 is expected to be received in 2016 and will be recorded as a reduction of capitalized expenditures.

d) During the year ended December 31, 2013, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding in an amount up to $673,000. During the year ended December 31, 2015, the Company received or recorded as receivable the amount of $79,640 (2014 – $300,254) of which $79,640 (2014 – $294,623) was recorded as a reduction of capitalized expenditures. The project has been completed at December 31, 2015.

e) During the year ended December 31, 2014, the Company entered into a non-repayable grant agreement with AI-Bio Solutions to provide funding of up to $198,000 for certain research activities. During the year ended December 31, 2015, the Company received $nil (2014 – $89,100). An amount of $66,983 (2014 – $22,117) was expended on the research project. The Company anticipates receiving up to $108,900 in 2016.

f) During the year ended December 31, 2014, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $52,500 for certain research activities. During the year ended December 31, 2015, the Company received or recorded as a receivable $8,443 (2014 – $20,242). The project has been completed at December 31, 2015.

g) During the year ended December 31, 2015, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $52,000 for certain research activities. During the year ended December 31, 2015, the Company received or recorded as a receivable $14,083. The Company received an additional $5,791 in 2016 and the project was completed.

h) During the year ended December 31, 2015, the Company entered into a contribution agreement with AI-Bio Solutions for a non-repayable funding contribution of $800,000 to implement the commercialization scale-up of the Company's Pressurized Gas Expanded (PGX) Technology. During the year, the Company received $300,000 which has been recorded as deferred revenue at December 31, 2015. The Company anticipates receiving an additional $400,000 in 2016 and $100,000 in 2017.

i) During the year ended December 31, 2015, the Company entered into a contribution agreement with Industrial Research Assistance Program (IRAP) for non-repayable funding of up to a maximum of $350,000 for costs incurred on the demonstration and testing of the Company's PGX Technology. During the year ended December 31, 2015, the Company received or recorded as a receivable $54,234 which has been recorded as a reduction of research and project development expenses. The Company anticipates receiving up to $295,766 over the period from January 1, 2016 to February 28, 2017.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2015, $nil (2014 – $26,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at December 31, 2015, $nil (2014 – $9,000) of royalties were payable to employees and directors.

During the year ended December 31, 2015, $5,441 (2014 – $nil) of interest was earned by a company controlled by an officer and by a close family member of a director from their $75,000 (2014 – $nil) investments in the convertible debenture financing.

During the year ended December 31, 2015, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $586,000 (2014 – $519,000) and share-based payments expense for key management personnel was $327,000 (2014 – $57,000).

Amount payable to directors at December 31, 2015 was $40,000 (2014 – $29,000). Consulting fees and key management salaries payables to officers included in accounts payable and accrued liabilities at December 31, 2015 was $40,000 (2014 – $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, 2011, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of $724,500 pursuant to a product development agreement. The Company and Ceapro Veterinary Products Inc. filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and have been submitted to the presiding judge. The Company believes it has presented strong defenses to the allegations at trial and no provision has made in the consolidated financial statements for this litigation.

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

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

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

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

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

(d) During the year ended December 31, 2014, the Company entered into a new 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.

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

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

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

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

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

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

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

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

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

OUTLOOK

We are very pleased with the 2015 results showing the highest full year revenue in Ceapro's history with an increase of 20.0% or $ 1,777,000 over the full year ended December 31, 2014 as well as showing a net profit of $4,922,000 compared to a net profit of $1,594,000 in 2014.

Following the subsequent to year end announcement of the renewal of a distribution agreement with our major distributor and given the foreseen continued strength of the US dollar, we expect to maintain this positive trend in 2016 for our base business in cosmeceuticals.

Also, upon completion of the implementation and commissioning of the first phase of the new facility expected in mid-2016, we plan to initiate the transition to nutraceuticals and pharmaceuticals by accelerating our investments for the clinical development programs with our value drivers' beta glucan and avenanthramides to be tested respectively as cholesterol reducer and anti-inflammatory products.

Further, we will actively pursue an extensive research program with our proprietary PGX platform technology for which we now have the worldwide rights for all industrial applications. We view this as a game changer for Ceapro and expect to invest the necessary resources to advance this program at the commercial scale level.

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

ADDITIONAL INFORMATION

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

:: CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

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

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

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

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

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

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

Sincerely,

SIGNED "Gilles Gagnon"
President and Chief Executive Officer

SIGNED "Stacy Prefontaine"
Chief Financial Officer

April 13, 2016

GrantThornton

Independent Auditor's Report

Grant Thornton LLP
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To the Shareholders of
Ceapro Inc.

We have audited the accompanying consolidated financial statements of Ceapro Inc., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of net income and comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

Grant Thornton

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated balance sheets of Ceapro Inc. as at December 31, 2015 and December 31, 2014 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has a working capital deficiency as a result of an ongoing project, which requires additional capital financing to complete. The Company will be reliant on identifying and receiving additional proceeds from additional financing to meet the costs required to complete the project. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Grant Thornton LLP

Edmonton, Canada

April 13, 2016

Chartered Professional Accountants, Chartered Accountants

CONSOLIDATED BALANCE SHEETS

	December 31, 2015 $	December 31, 2014 $
ASSETS		
Current Assets		
Cash and cash equivalents	**1,681,125**	272,845
Trade receivables	**538,995**	423,567
Other receivables	**124,132**	210,904
Inventories (note 4)	**1,242,417**	679,265
Prepaid expenses and deposits	**259,560**	61,502
	3,846,229	1,648,083
Non-Current Assets		
Investment tax credits receivable (note 16)	**603,302**	–
Deposits	**93,264**	36,903
Licenses (note 5)	**33,329**	36,292
Property and equipment (note 6)	**9,868,676**	5,961,951
Deferred tax assets (note 18)	**1,258,674**	–
	11,857,245	6,035,146
TOTAL ASSETS	**15,703,474**	7,683,229
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**2,005,611**	1,791,145
Deferred revenue (note 10)	**1,172,198**	162,279
Current portion of long-term debt (note 7)	**984,318**	768,345
Convertible debentures (note 8)	**872,355**	–
Current portion of employee future benefits obligation (note 11)	**–**	127,009
Current portion of CAAP loan (note 13)	**72,942**	72,942
Income tax payable (note 18)	**95,180**	–
Royalties interest payable (note 9b)	**–**	43,075
	5,202,604	2,964,795
Non-Current Liabilities		
Long-term debt (note 7)	**2,277,186**	2,361,326
CAAP loan (note 13)	**235,529**	265,075
Deferred tax liabilities (note 18)	**111,621**	–
	2,624,336	2,626,401
TOTAL LIABILITIES	**7,826,940**	5,591,196
Equity		
Share capital (note 12b)	**6,800,018**	6,565,927
Equity component of convertible debentures (note 8)	**106,200**	–
Contributed surplus (note 12c)	**1,029,564**	507,505
Accumulated other comprehensive loss (note 11)	**–**	(16,916)
Deficit	**(59,248)**	(4,964,483)
	7,876,534	2,092,033
TOTAL LIABILITIES AND EQUITY	**15,703,474**	7,683,229

See accompanying notes

Approved on Behalf of the Board

SIGNED: “John Zupancic”
Director

SIGNED: “Dr. Ulrich Kosciessa”
Director

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

Year Ended December 31,	**2015** **$**	2014 $
Revenue (note 14)	**10,667,442**	8,890,256
Cost of goods sold	**3,638,845**	4,126,484
Gross margin	**7,028,597**	4,763,772
Research and product development	**625,214**	578,361
General and administration	**2,519,119**	1,984,025
Sales and marketing	**7,624**	13,700
Finance costs (note 17)	**246,586**	187,969
Income from operations	**3,630,054**	1,999,717
Other operating income (loss) (note 16)	**203,974**	(405,922)
Income before tax	**3,834,028**	1,593,795
Income taxes		
Current tax expense (note 18)	**(95,180)**	–
Deferred tax recovery (note 18)	**1,183,303**	–
Income tax recovery	**1,088,123**	–
Total comprehensive income for the year	**4,922,151**	1,593,795
Net income per common share (note 26):		
Basic	**0.08**	0.03
Diluted	**0.08**	0.03
Weighted average number of common shares outstanding (note 26):		
Basic	**61,804,259**	60,901,619
Diluted	**65,200,006**	62,533,647

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital $	Contributed surplus $	Equity component of convertible debentures $	Deficit $	Accumulated other comprehensive loss $	Total Equity $
Balance December 31, 2014	6,565,927	507,505	–	(4,964,483)	(16,916)	2,092,033
Share-based payments	–	580,299	–	–	–	580,299
Stock options exercised	143,823	(58,240)	–	–	–	85,583
Shares issued for settlement of debt (note 12b)	90,268	–	–	–	–	90,268
Convertible debentures, net of tax of $36,250 (note 8)	–	–	106,200	–	–	106,200
Future benefit obligation (note 11)	–	–	–	(16,916)	16,916	–
Net income for the year	–	–	–	4,922,151	–	4,922,151
Balance December 31, 2015	6,800,018	1,029,564	106,200	(59,248)	–	7,876,534
Balance December 31, 2013	6,315,858	503,829	–	(6,558,278)	(16,916)	244,493
Share-based payments	–	111,995	–	–	–	111,995
Stock options exercised	250,069	(108,319)	–	–	–	141,750
Net income for the year	–	–	–	1,593,795	–	1,593,795
Balance December 31, 2014	6,565,927	507,505	–	(4,964,483)	(16,916)	2,092,033

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31	**2015** **$**	2014 $
OPERATING ACTIVITIES		
Net income for the year	**4,922,151**	1,593,795
Adjustments for items not involving cash		
Finance costs	**52,778**	45,548
Transaction costs	**24,629**	18,532
Depreciation and amortization	**392,317**	296,383
Unrealized foreign exchange (gain) loss on long-term debt	**65,228**	(52,220)
Loss on disposal of property and equipment	**–**	3,680
Loss on write-off of licence	**–**	25,875
Accretion	**119,179**	58,430
Income tax recovery	**(1,088,123)**	–
Employee future benefits obligation	**–**	4,027
Share-based payments	**580,299**	111,995
Net income for the period adjusted for non-cash items	**5,068,458**	2,106,045
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	**(115,428)**	(172,708)
Other receivables	**86,772**	68,509
Investment tax credits receivable	**(603,302)**	–
Inventories	**(563,152)**	(355,683)
Prepaid expenses and deposits	**(254,419)**	272,446
Deferred revenue	**1,009,919**	(199,030)
Royalty liability accrued	**–**	11,444
Accounts payable and accrued liabilities relating to operating activities	**(423,774)**	540,541
Total changes in non-cash working capital items	**(863,385)**	165,519
Net income for the period adjusted for non-cash and working capital items	**4,205,073**	2,271,564
Interest paid	**(222,678)**	(136,608)
CASH GENERATED FROM OPERATIONS	**3,982,395**	2,134,956
INVESTING ACTIVITIES		
Purchase of property and equipment	**(1,504,690)**	(2,337,054)
Purchase of leasehold improvements	**(2,701,129)**	(2,282,812)
Accounts payable and accrued liabilities relating to investing activities	**728,509**	256,196
CASH USED BY INVESTING ACTIVITIES	**(3,477,310)**	(4,363,670)
FINANCING ACTIVITIES		
Long-term debt	**900,000**	1,071,678
Convertible debentures	**960,000**	–
Employee future benefits obligation repayment	**(127,009)**	(150,000)
Stock options exercised	**85,583**	141,750
Transaction costs	**(28,802)**	–
Repayment of long-term debt	**(839,258)**	(630,335)
Repayment of CAAP loan	**(83,884)**	(83,884)
Grant used for purchasing of leaseholds, property and equipment	**79,640**	294,623
Repayment of royalty financial liability	**(43,075)**	(95,292)
CASH GENERATED FROM FINANCING ACTIVITIES	**903,195**	548,540
Increase (decrease) in cash and cash equivalents	**1,408,280**	(1,680,174)
Cash and cash equivalents at beginning of the year	**272,845**	1,953,019
Cash and cash equivalents at end of the year	**1,681,125**	272,845

See accompanying notes

Cash and cash equivalents are comprised of $1,374,287 (2014 – $199,071) on deposit with financial institutions, $300,000 (2014 – $66,983) restricted cash on deposit with financial institutions (see note 10), and $6,838 (2014 – $6,791) held in money market mutual funds.

Notes to Consolidated Financial Statements December 31, 2015 and 2014

1. NATURE OF BUSINESS OPERATIONS AND GOING CONCERN

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

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

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge liabilities in the normal course of operations. However, certain conditions may cast significant doubt upon the validity of this assumption. The Company is currently in progress to complete a new manufacturing facility which involves substantial capital expenditures for engineering and design, permitting, construction of leaseholds, specialized equipment, as well as other related costs required to meet the strict requirements of major customers. The scope of the original planned manufacturing facility was further redefined throughout fiscal 2015. As a result, the overall planned investment for the first phase of the facility was expanded and is currently estimated at $13,800,000, of which the Company has completed and recorded approximately $10,800,000 at December 31, 2015. As a result of the increased scope of the project, the Company had a working capital deficiency of $1,356,375 at December 31, 2015 and may require additional financing to complete the first phase of the manufacturing facility.

When a new manufacturing facility is brought into commercial production, there is always a risk as to the magnitude of investment of human and financial resources required for start-up and commissioning activities. While the Company fully utilizes its expertise and engages qualified third parties to complete these activities and minimize risks, there is still some risk inherent in these activities. Additional funds will be required to complete these essential activities. The increase in the planned investment for the first phase incorporates many factors including changes to the design of the manufacturing process, costs relating to the modification and delay of construction activities, foreign exchange effects experienced from equipment purchases during the year, and estimated capitalized salaries and borrowing costs. The planned investment total has always been presented exclusive of government programs committed or received representing over $2,000,000 to date which have reduced actual cash outlays significantly. During the year ended December 31, 2015, financing for completion of the new facility has consisted of a new loan agreement and convertible debenture financing in the first quarter followed by reinvestment of operating profits during the remaining quarters. The Company currently estimates that it will need to generate an additional $3,000,000 from ongoing operations and/or other sources to complete the first phase of the new facility which will be expanded by 10,000 square feet to host the PGX technology and ethanol recycling system.

The Company's ability to continue as a going concern is dependent on obtaining additional financial capital and maintaining profitability and positive cash flow. Management is continuing to pursue additional funding from potential strategic alliances with partners, government programs, and other sources to fully fund its anticipated needs. There can be no assurance that the Company will be able to access capital when needed. These consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets and liabilities, revenues and expenses, and the balance sheet classification used if the Company were unable to continue operations. Such adjustments could be material.

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 13, 2016.

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 Veterinary Products Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., and Ceapro USA Inc.

All intercompany accounts and transactions have been eliminated on consolidation.

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

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

Management critical judgments

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

Functional currency

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

Management estimates and assumptions

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

Provisions

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

Taxation

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

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

Investment tax credits

The recognition of investment tax credits relating to the Company's qualifying scientific research and experimental development expenditures requires management to estimate the amount and timing of recovery. The Company has assessed that it is probable that sufficient taxable income will be available to recognize the investment tax credits as recognized at December 31, 2015.

Inventories

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

Property and equipment

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

Licences

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

Royalties

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONVERTIBLE DEBENTURES

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

SHARE-BASED PAYMENTS

The fair value of share-based payments is determined using the Black Scholes option pricing model based on estimated fair values at the date of grant. The Black Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the award. Changes in these assumptions can significantly affect the fair value estimate. For more information, see note 12.

D) CASH AND CASH EQUIVALENTS

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

E) REVENUE RECOGNITION

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

F) INVENTORIES

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

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

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

G) PROPERTY AND EQUIPMENT

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

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

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

H) BORROWING COSTS

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

I) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

J) LEASES

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

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

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

K) INTANGIBLE ASSETS

Licences

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

Research and product development expenditures

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

L) TRADE RECEIVABLES

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

M) 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.

N) 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.

O) GOVERNMENT ASSISTANCE

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.

P) 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.

Q) CONVERTIBLE DEBENTURES

The convertible debentures have been separated into liability and equity components for accounting purposes based on the residual value method, whereby the fair value of the liability component is measured first with the residual value being allocated to the conversion feature. The fair value of the liability component is measured using a discount rate for a similar financial instrument without the conversion feature. The liability component is subsequently measured at amortized cost using the effective interest rate method and will accrete up to the principal balance at maturity.

R) INCOME (LOSS) PER COMMON SHARE

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

S) SHARE-BASED PAYMENTS

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

T) 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.

U) 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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

classified as at fair value through profit or loss ("FVTPL") which are expensed as incurred. The Company has designated its financial instruments as follows:

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

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

3. CHANGES IN ACCOUNTING POLICIES

Future accounting policies not yet adopted

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

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

IFRS 9 "FINANCIAL INSTRUMENTS"

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

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

IFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS"

In May 2014, the IASB released IFRS 15 "Revenue from Contracts with Customers" which presents new requirements for the recognition of revenue, replacing IAS18 "Revenue", IAS 11 "Construction contracts", and several revenue related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

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

IFRS 16 "LEASES"

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

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

4. INVENTORIES

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

	December 31, 2015 $	December 31, 2014 $
Raw materials	**223,261**	289,784
Work in progress	**376,938**	43,867
Finished goods	**642,218**	345,614
	1,242,417	679,265

Inventories expensed to cost of goods sold during the year ended December 31, 2015 are $3,567,760 (December 31, 2014 – $4,046,206).

During the year ended December 31, 2015, the Company decreased the carrying value of inventory by $10,584 (2014 – $26,671) due to estimated realizable values from certain finished goods being lower than cost and included the write-down 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 21 (e)).

During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and commenced amortizing the licence over 15 years, in April 2012. Amortization of $2,963 has been included in general and administration for the year ended December 31, 2015 (December 31, 2014 – $2,962) (see note 21 (d)).

During the year ended December 31, 2011, the Company entered into a new licensing agreement with the University of Guelph for an exclusive variety of a mint plant. This agreement replaced the agreement the Company entered during the year ended December 31, 2008. The Company paid a licensing fee of $30,000 in 2008 and $15,000 in 2011. The remaining unamortized portion of the licence fee from 2008 and the new fee in 2011 is being amortized over 10 years, being the term of the new licensing agreement, commencing in 2011. During the year ended December 31, 2014, the cost of the licence fee of $45,000 and accumulated amortization of $19,125 were written off and included in other operating loss as a result of a decision by the Company to terminate the licence agreement. Amortization of $nil

5. LICENCES (CONTINUED)

(December 31, 2014 – $1,125) has been included in general and administration for the year ended December 31, 2015 (see note 21 (c)).

Cost of Licences	$
Balance – December 31, 2013	89,439
Additions	–
Write-off	(45,000)
Balance – December 31, 2014	44,439
Additions	–
Balance – December 31, 2015	44,439
Accumulated amortization	
Balance – December 31, 2013	23,185
Amortization	4,087
Write-off	(19,125)
Balance – December 31, 2014	8,147
Amortization	2,963
Balance – December 31, 2015	11,110
Net book value	
Balance – December 31, 2015	33,329
Balance – December 31, 2014	36,292

6. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
December 31, 2013	27,939	3,645,045	82,100	300,101	277,301	4,332,486
Additions	1,982,459	50,409	232,190	113,165	2,321,303	4,699,526
Disposal	–	(10,209)	(8,844)	(12,970)	–	(32,023)
Cost reduced by grant	(294,623)	–	–	–	–	(294,623)
December 31, 2014	1,715,775	3,685,245	305,446	400,296	2,598,604	8,705,366
Additions	1,543,015	45,525	–	1,100	2,786,079	4,375,719
Cost reduced by grant	(21,560)	(1,517)	–	–	(56,563)	(79,640)
Disposal	–	–	–	–	–	–
December 31, 2015	3,237,230	3,729,253	305,446	401,396	5,328,120	13,001,445
Accumulated Depreciation						
December 31, 2013	–	2,042,607	68,710	247,781	120,364	2,479,462
Depreciation	–	237,768	13,570	25,473	15,485	292,296
Disposal		(6,721)	(8,675)	(12,947)	–	(28,343)
December 31, 2014	–	2,273,654	73,605	260,307	135,849	2,743,415
Additions	–	239,316	46,221	41,050	62,767	389,354
Disposal	–	–	–	–	–	–
December 31, 2015	–	2,512,970	119,826	301,357	198,616	3,132,769
Carrying Value						
December 31, 2015	3,237,230	1,216,283	185,620	100,039	5,129,504	9,868,676
December 31, 2014	1,715,775	1,411,591	231,841	139,989	2,462,755	5,961,951

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Year Ended December 31, 2015	165,443	49,776	174,135	389,354
Year Ended December 31, 2014	186,070	23,984	82,242	292,296

The carrying value of the leasehold improvements and equipment not available for use represent the accumulated expenditures incurred on the construction of the new manufacturing facility, net of government funding received and amortization taken on leasehold improvements to date.

Amortization of leasehold improvements for certain sections of the new manufacturing facility has commenced as these sections were completed and the Company moved partial operations to the new facility. The production section is not being amortized as the facility is not yet available for use and has not yet commenced manufacturing operations.

Included in the additions for equipment not available for use are capitalized borrowing costs of $84,950 (2014 – $41,169) and capitalized employee salaries and benefits of $236,336 (2014 – $182,316) arising directly from the construction of the new manufacturing equipment and production process. Included in leasehold improvement additions are capitalized borrowing costs of $84,950 (2014 – $38,491) and capitalized employee salaries and benefits of $149,811 (2014 – $55,324) arising directly from the construction of the new manufacturing facility. The borrowing costs have been capitalized at the rates of the specific borrowings ranging between 2.85% and 8% (2014 – at the rates of specific borrowings ranging between 2.85% and 3.91%).

7. LONG-TERM DEBT

	December 31, 2015 $	December 31, 2014 $
Loan payable secured by a general security agreement, due January, 2018 (a).	**400,847**	582,693
Loan payable secured by certain intellectual property, due January, 2019 (b).	**951,921**	1,161,166
Loan payable secured by a general security agreement, due April, 2019 (c).	**1,101,982**	1,404,672
Loan payable secured by a forklift, due June, 2018 (d).	**31,681**	43,477
Loan payable secured by a general security agreement, due July, 2020 (e).	**831,547**	–
Transaction costs	**(56,474)**	(62,337)
	3,261,504	3,129,671
Less current portion	**984,318**	768,345
	2,277,186	2,361,326

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

Year Ended December 31, 2015	52,778
Year Ended December 31, 2014	45,548

(a) During the year ended December 31, 2012, the loan from Agriculture Financial Services Corporation ("AFSC") was renewed to January 1, 2018 at an interest rate of 3.71% with monthly blended principal and interest payments of $16,674 starting February 1, 2013. The loan is secured by a general security agreement covering all present and after acquired personal property subject to a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 7 (b).

(b) During the year ended December 31, 2013, the Company entered into a loan agreement with its distribution partner, Symrise, which is secured by certain intellectual property and is due January 2, 2019. The loan, for 1 million Euro, is repayable over 5 years at an interest rate of 2.85%. At December 31, 2015, the loan balance was 633,390 (2014 – 827,159) Euro. Monthly blended principal and interest payments in the amount of 17,902 Euro commenced February 1, 2014. Based on the exchange rate at December 31, 2015, the monthly payment is $26,905 (2014 – $25,131) in Canadian dollars.

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

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

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

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

8. CONVERTIBLE DEBENTURES

During the year ended December 31, 2015, the Company issued an aggregate of $960,000 of unsecured convertible debentures that mature on December 31, 2016.

The debentures bear interest at 8% per annum with interest payable on June 30 and December 31 of each year. Pursuant to the terms of the debentures, the Company will have the option to satisfy interest payments through the issuance of common shares based on the volume weighted average trading price of the common shares for the 20 trading days upon which the common shares traded on the TSX-V immediately prior to the interest obligation date.

The debentures are convertible into common shares of the Company at any time at a price of $0.64 per common share at the option of the holder and may be redeemed at the option of the Company upon giving notice of 60 days. The debentures and any common shares issued upon conversion of the convertible debentures are subject to a four-month hold period from the date of issue.

The convertible debentures have been separated into liability and equity components using the residual method. The fair value of the liability component at the time of issue was calculated using discounted cash flows for the convertible debenture assuming an effective interest rate of 17%. The effective interest rate was based on the estimated rate for a debenture with similar terms but without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible debentures and the fair value of the liability component. The liability component is subsequently measured at amortized cost using the effective interest rate method and will accrete up to the principal balance at maturity. The accretion is presented as a finance cost. Interest expense is capitalized as a borrowing cost until the new manufacturing facility is completed, thereafter, interest will be presented as a finance cost.

Transaction costs of $17,091 were incurred on the issuance of the convertible debentures and have been netted against the liability and equity components based on the proportionate values of the liability and equity components. The transaction costs allocated to the liability component are amortized at the effective interest rate over the term of the convertible debentures and are presented as a finance cost.

The following table summarizes the accounting for the convertible debentures:

	Liability Component $	Equity Component $
December 31, 2014	–	–
Fair value of components at date of issue	815,000	145,000
Deferred income tax liability	–	(36,250)
Transaction costs	(14,541)	(2,550)
Amortization of transaction costs	7,055	–
Accretion of discount on the convertible debentures	64,841	–
December 31, 2015	872,355	106,200

9. ROYALTIES PAYABLE

a) In the year ended December 31, 2004, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling $250,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2015, $225,000 (2014 – $225,000) of this commitment has been received and the remaining $25,000 was decommitted. CTI is obligated to pay a royalty (to a maximum of two times the financial assistance received) on sales generated from

9. ROYALTIES PAYABLE (CONTINUED)

CeaProve® on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. No royalties have been paid or accrued during the current or prior years. CTI has repaid at December 31, 2015 $nil (2014 – $nil) of this obligation. Upon completion of the repayment of the financial assistance received, CTI will also be required to repay $19,750 advanced during the year ended December 31, 2002. The portion of this obligation paid or accrued as at December 31, 2015 was $nil (2014 – $nil). The potential amount payable per agreement as at December 31, 2015 is $469,750 (2014 – $469,750) (see note 9(e)).

b) On December 28, 2005, the Company sold a 2.285% royalty interest in the Company's future sales and licensing of certain active ingredients, animal health, and CeaProve® products for $457,000. The maximum royalties payable are two times the amount invested or $914,000. The portion of this obligation paid or accrued as at December 31, 2015 was $914,000 (2014 – $914,000). During the year, the Company repaid $43,075 through cash payments (2014 – $113,211). The balance of royalties payable under this offering as at December 31, 2015 was $nil (2014 – $43,075). The potential amount payable per agreement as at December 31, 2015 is $nil (2014 – $nil) (see note 9(e)).

	Year Ended December 31, 2015 $	Year Ended December 31, 2014 $
Opening amount of royalties interest payable	**43,075**	31,631
Royalty expense recognized	**–**	124,655
Amount paid during the year	**(43,075)**	(113,211)
Closing amount of royalties interest payable	**–**	43,075
Opening amount of royalty financial liability	**–**	106,692
Principal repayment of the discounted amount during the year	**–**	(106,692)
Closing amount of royalty financial liability	**–**	**–**
Less current portion	**–**	–
	–	–
Interest expense paid during the year	**–**	17,959

c) In the year ended December 31, 2005, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. (CVP), received a commitment for financial assistance totaling $362,250 for product innovation development in the area of Veterinary Therapeutics and Active Ingredients. As at December 31, 2015, $362,250 (2014 – $362,250) of the commitment has been received. The Company and CVP are obligated to pay a 2.5% royalty to a maximum of $75,000 per quarter (to a maximum of two times the financial assistance received or $724,500) on sales generated from products developed using these funds. The portion of the obligation accrued and paid at December 31, 2015 was $1,615 (2014 – $1,224). The potential amount payable per agreement as at December 31, 2015 is $722,885 (2014 – $723,276) (see note 9(e)).

d) In the year ended December 31, 2005, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling $800,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2015, $510,000 of this commitment has been received (2014 – $510,000) and the remaining $290,000 has been decommitted. CTI is obligated to pay a royalty (to a maximum of one and a half times the financial assistance received or $765,000) on sales of CeaProve® on the following basis: 0% of net sales and net sub-licensing revenues earned until royalty payments have been fully satisfied under the investment agreement in note 9(a), and 5% thereafter until repaid to a maximum of $125,000 per quarter. No royalties have been incurred during the current year. The portion of this obligation paid or accrued as at December 31, 2015 was $nil (2014 – $nil). The potential amount payable per agreement as at December 31, 2015 is $765,000 (2014- $765,000) (see note 9(e)).

e) Potential royalties payable as at December 31, 2015 and 2014:

Notes	Year of agreement	Potential amount payable at December 31, 2015	Potential amount payable at December 31, 2014
9 (a)	2004	469,750	469,750
9 (b)	2005	–	–
9 (c)	2005	722,885	723,276
9 (d)	2005	765,000	765,000
Total		**1,957,635**	**1,958,026**

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

10. DEFERRED REVENUE

During the year ended December 31, 2015, the Company received $300,000 (2014 – $89,100) from Alberta Innovates Bio Solutions (AI-Bio Solutions) under non-repayable grant agreements to fund research projects. During the year ended December 31, 2015, the Company has expended $66,983 (2014 – $22,117). The balance of the grants received of $300,000 at December 31, 2015 (2014 – $66,983) are restricted for eligible project expenditures which have not yet been incurred, so they have been presented as deferred revenue.

Deferred revenue also consists of $872,198 (2014 – $95,296) for prepaid sales orders from customers.

11. EMPLOYEE FUTURE BENEFITS OBLIGATION

The Company had an unfunded, non-registered, non-indexed defined benefit pension plan for a former officer. The pension agreement was revised during the year ended December 31, 2013 and the total amount of $277,009 was agreed to be paid to settle the obligation in the entirety as per the following installments:

January 1, 2014	$50,000
July 1, 2014	$100,000
January 1, 2015	$127,009
Total:	$277,009

11. EMPLOYEE FUTURE BENEFITS OBLIGATION (CONTINUED)

The final payment of $127,009 was paid during the year ended December 31, 2015. As the pension obligation is now completely extinguished, the actuarial losses of $16,916 that had arisen from previous changes in the discount rate used to measure the obligation, have been reclassified on the Statement of Changes in Equity from accumulated other comprehensive loss to deficit.

Accrued benefit obligation	**Year Ended December 31, 2015 $**	Year Ended December 31, 2014 $
Unfunded balance, beginning of period	**127,009**	272,982
Interest costs on accrued benefit obligation	**–**	4,027
Benefit repayment	**(127,009)**	(150,000)
Current portion	**–**	127,009

Elements of defined benefit costs recognized in the period	**Year Ended December 31, 2015 $**	Year Ended December 31, 2014 $
Interest cost on accrued benefit obligation	**–**	4,027

Defined benefit costs have been presented under research and product development expenses in the Statement of Net Income.

12. 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, 2015		Year Ended December 31, 2014	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of the year	**61,423,948**	**6,565,927**	60,278,948	6,315,858
Stock options exercised	**793,333**	**143,823**	1,145,000	250,069
Shares issued for settlement of debt	**273,540**	**90,268**	–	–
Balance at end of the year	**62,490,821**	**6,800,018**	61,423,948	6,565,927

12. SHARE CAPITAL (CONTINUED)

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

C. CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	2015 **$**	2014 $
Balance at beginning of the year	**507,505**	503,829
Share-based payments (note 12 (d))	**580,299**	111,995
Stock options exercised	**(58,240)**	(108,319)
	1,029,564	507,505

D. STOCK OPTIONS AND SHARE-BASED PAYMENTS

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

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the year ended December 31, 2015, the Company granted 1,210,000 (December 31, 2014 – 1,330,000) 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 2015 was 1.72% (2014 – 2.18%), the weighted average expected volatility was 117% (2014 – 115%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2014 – 10 years), forfeiture rate was 0% (2014 – 0%), the weighted average share price was $0.59 (2014 – $0.13), the weighted average exercise price was $0.59 (2014 – $0.13), and the expected dividends were nil (2014 – nil). The weighted average grant date fair value of options granted in the year ended December 31, 2015 was $0.55 (2014 – $0.13) per option.

The share-based payments expense recorded during the current year relating to options granted in 2015, 2014, and 2013 was $580,299 (during 2014 relating to options granted in 2014, 2013, and 2012 – $111,995).

A summary of the status of the Company's stock options at December 31, 2015 and 2014 and changes during the years ended on those dates is as follows:

	2015		2014	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of year	**3,120,000**	**0.12**	3,145,000	0.11
Granted	**1,210,000**	**0.59**	1,330,000	0.13
Exercised	**(793,333)**	**0.11**	(1,145,000)	0.12
Forfeited	**(90,000)**	**0.34**	(210,000)	0.10
Outstanding at end of year	**3,446,667**	**0.28**	3,120,000	0.12
Exercisable at end of year	**2,263,332**	**0.20**	1,946,668	0.11

E. STOCK OPTIONS OUTSTANDING ARE AS FOLLOWS:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	**December 31, 2015 Number of Options**	December 31, 2014 Number of Options
0.25	0.27	2025	9.6	**10,000**	–
0.25	0.27	2025	9.5	**10,000**	–
0.34	0.36	2025	9.3	**150,000**	–
0.47	0.50	2025	9.1	**100,000**	–
0.60	0.64	2025	9.0	**900,000**	–
0.37	0.27	2024	8.9	**150,000**	150,000
0.13	0.14	2024	8.4	**250,000**	250,000
0.08	0.10	2024	8	**780,000**	810,000
0.05	0.10	2023	7.0	**786,667**	1,065,000
0.09	0.10	2022	6.5	**160,000**	300,000
0.11	0.15	2016	0.5	**150,000**	275,000
0.06	0.10	2015	–	**–**	270,000
			7.8	**3,446,667**	3,120,000

13. CAAP LOAN

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

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

The balance of repayable contribution is derived as follows:

Year Ended December 31,	**2015 $**	2014 $
Opening balance	**338,017**	363,471
Repayment	**(83,884)**	(83,884)
Accretion of CAAP loan	**54,338**	58,430
	308,471	338,017
Less current portion	**72,942**	72,942
	235,529	265,075

13. CAAP LOAN (CONTINUED)

The principal repayment required for amounts received or receivable from inception to December 31, 2013 is $83,883 annually from 2014 through 2021.

14. REVENUE

During the year ended December 31, 2015, the Company had export sales to two customers of the Company's products in the aggregate amount of $9,275,932 (87%) (2014 – to two customers in the amount of $8,206,953 (92%)). The Company is therefore dependent on those customers to maintain and expand the volume of product sales.

15. RELATED PARTY TRANSACTIONS

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

Year Ended December 31,	**2015** **$**	2014 $
Royalties earned by employees and directors	**–**	25,666
Amounts payable to employees and directors included in royalties payable	**–**	8,719
Convertible debentures held by a company controlled by an officer and by a close family member of a director	**75,000**	–
Interest earned on convertible debentures held by a company controlled by an officer and by a close family member of a director	**5,441**	–
Key management salaries, short-term benefits, consulting fees, and director fees	**586,150**	519,053
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	**40,000**	46,000
Key management personnel share-based payments	**327,363**	56,806
Amount payable to directors	**39,979**	28,750

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.

16. OTHER OPERATING (INCOME) LOSS

Year Ended December 31,	**2015** **$**	2014 $
Foreign exchange loss (income)	**55,061**	(26,514)
Loss on write-off of licence	**–**	25,875
Loss on disposal of property and equipment	**–**	3,680
Other (income)	**(12,642)**	(2,621)
Plant relocation costs	**356,909**	405,502
Recognition of investment tax credits	**(603,302)**	–
	(203,974)	405,922

The Company has recorded an investment tax credits receivable of $603,302 related to its qualifying expenditures for scientific research and experimental development costs which have been earned in periods prior to 2015 but not previously recognized. The Company has determined that there is reasonable assurance, based on estimated future taxable income, that these credits will be realized. In the year investment tax credits are generated, if recognized, they will offset the related expenditures; however, in the current year as the investment tax credits related to prior year expenditures, they have been recognized in other operating income (loss).

17. FINANCE COSTS

Year Ended December 31,	**2015** **$**	2014 $
Interest on long-term debt	**52,778**	45,548
Transaction costs	**24,629**	18,532
Royalties	**50,000**	47,500
Accretion of CAAP loan	**54,338**	58,430
Accretion of convertible debentures	**64,841**	–
Interest on royalty financial liability	**–**	17,959
	246,586	187,969

18. INCOME TAXES

A) INCOME TAX EXPENSE

Components of income tax expense are:

	December 31, 2015 **$**	December 31, 2014 $
Current tax expense	**95,180**	–
Deferred tax expense		
Origination and reversal of temporary differences	**1,204,923**	619,435
Change in unrecognized deductible temporary differences	**(2,351,772)**	(544,273)
Prior period adjustments	**(36,454)**	(75,162)
Income tax expense (recovery)	**(1,088,123)**	–

18. INCOME TAXES (CONTINUED)

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

	December 31, 2015 $	December 31, 2014 $
Income before tax	**3,834,028**	1,593,795
Statutory income tax rate	**26.01%**	25.00%
Expected income tax	**997,231**	398,449
Increase (decrease) resulting from:		
Non taxable items	**152,871**	30,177
Change in unrecognized deductible temporary differences	**(2,351,772)**	(353,464)
Change in tax rates and rate differences	**88,445**	–
Other	**61,556**	–
Prior period tax adjustments	**(36,454)**	(75,162)
Income tax	**(1,088,123)**	–

B) RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

	December 31, 2015 $	December 31, 2014 $
Deferred tax assets are attributable to the following:		
SRED pool, net of investment tax credits	**–**	187,142
Deferred revenue	**87,136**	–
Finance costs	**15,001**	–
Patents	**194,422**	–
Cumulative eligible capital	**85,876**	–
Other	**22,014**	–
Non-capital losses	**1,206,167**	–
Deferred tax assets	**1,610,616**	187,142
Offset by deferred tax liabilities	**(351,942)**	(187,142)
Net deferred tax asset	**1,258,674**	–
Deferred tax liabilities are attributable to the following:		
Property and equipment	**(197,533)**	(121,686)
Convertible debenture	**(23,664)**	–
Finance fees	**–**	(3,160)
CAAP loan	**(52,608)**	(62,296)
SRED investment tax credits	**(189,758)**	–
Deferred tax liabilities	**(463,563)**	(187,142)
Offset by deferred tax assets	**351,942**	187,142
Net deferred tax liability	**(111,621)**	–

C) UNRECOGNIZED DEFERRED TAX ASSETS

	December 31, 2015 $	December 31, 2014 $
Deferred tax assets have not been recognized in respect of the following items:		
Deductible temporary differences	**168,607**	1,329,539
Tax losses	**2,549,655**	3,740,504
	2,718,262	5,070,043

The non-capital loss carryforwards expire between 2016 and 2035. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

19. SEGMENTED INFORMATION

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

Year Ended December 31,	**2015** **$**	2014 $
United States	**6,152,203**	7,425,861
Germany	**3,800,161**	1,290,047
China	**597,056**	89,969
Other	**111,395**	83,142
Canada	**6,627**	1,237
	10,667,442	8,890,256

20. EMPLOYEE BENEFITS

Year Ended December 31,	**2015** **$**	2014 $
Employee benefits	**2,740,553**	2,498,791

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

21. CONTINGENCIES AND COMMITMENTS

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

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

c) During the year ended December 31, 2008, the Company entered into a licensing agreement with the University of Guelph for an exclusive variety of a mint plant. During the year ended December 31, 2011, the Company entered into a new licensing agreement with the University of Guelph for additional market rights for the exclusive variety of a mint plant.

21. CONTINGENCIES AND COMMITMENTS (CONTINUED)

In accordance with the new agreement, there are future minimum royalty prepayments of $10,000 per annum starting in 2012 for royalty payments which will be calculated as 5% of net sales from products derived from the mint plants. The minimum royalty payments are creditable against royalties in years where royalties are due. The agreement is an executory contract and therefore all royalty payments under the contract will be recognized as they become due. During the year ended December 31, 2014, the Company decided to terminate the licence agreement and no further royalties will be payable.

d) During the year ended December 31, 2012, the Company entered into a new 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.

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

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

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

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

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

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

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

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

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

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

22. OPERATING LEASE

The Company incurred $692,119 in 2015 (2014 – $731,379) under rental operating leases. These amounts were recorded as follows: general and administration expenses of $91,623 (2014 – $115,543), research and development expenses of $18,040 (2014 – $831), cost of goods sold of $230,711 (2014 – $234,343), and other operating loss of $351,745 (2014 – $380,662).

The Company is committed to future annual payments under operating leases for manufacturing facilities, office space, and warehouse. Total lease commitments exclusive of operating costs from January 1, 2016 to March 31, 2025 are disclosed in the table below:

	0 - 1 year $	2 - 5 years $	6 - 12 years $	Total $
New facility lease	319,380	1,333,033	1,493,167	3,145,580
Warehouse	58,500	4,875	–	63,375
Total	377,880	1,337,908	1,493,167	3,208,955

23. FINANCIAL INSTRUMENTS

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

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

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

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

The Canadian Agricultural Adaptation Program (“CAAP”) loan is recorded at the amount drawn under the agreement, discounted using the prevailing market rate of interest for a similar instrument, which represents the estimated fair value of the obligation.

The fair value of the CAAP loan and the repayable research funding are not materially different from their carrying amounts as funding received has been discounted using an estimate of a market rate of interest and is being accreted back to its nominal amount (level 2).

23. FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of the convertible debentures are estimated to approximate the carrying value as they have been based on discounted cash flows based on interest rates for similar instruments (level 2).

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

	December 31, 2015		December 31, 2014	
	Book value $	**Fair value $**	Book value $	Fair value $
Loans and receivables:				
Cash and cash equivalents	**$1,681,125**	**$1,681,125**	$272,845	$272,845
Trade and other receivables	**663,127**	**663,127**	634,471	634,471
Other financial liabilities:				
Accounts payable and accrued liabilities	**$2,005,611**	**$2,005,611**	$1,791,145	$1,791,145
Long-term debt	**3,261,504**	**3,261,504**	3,129,671	3,129,671
Convertible debentures	**872,355**	**872,355**	–	–
CAAP loan	**308,471**	**308,471**	338,017	338,017
Royalties interest payable	**–**	**–**	43,075	43,075

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

A) CREDIT RISK

Trade and other receivables

The Company makes sales to customers 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 two customers at December 31, 2015 (2014 – 95% from two customers) and all trade receivables at December 31, 2015 and 2014 are current. These main customers are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $1,681,125 at December 31, 2015 (2014 – $272,845) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

B) LIQUIDITY RISK

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

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

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	2,005,611	–	–	–	2,005,611
Long-term debt	1,086,966	1,983,524	457,496	–	3,527,986
Convertible debentures	1,036,800	–	–	–	1,036,800
CAAP loan	83,884	167,767	167,767	83,884	503,302
Total	4,213,261	2,151,291	625,263	83,884	7,073,699

C) MARKET RISK

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

1. Foreign currency risk

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

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

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (USD)	
		-1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial assets			
Accounts receivable	389,447	3,894	(3,894)
Financial liabilities			
Accounts payable and accrued liabilities	152,403	(1,524)	1,524
Total increase (decrease)		2,370	(2,370)

	CARRYING AMOUNT (EURO)	FOREIGN EXCHANGE RISK (EURO)	
		– 1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial liabilities			
Long-term debt	633,390	(6,334)	6,334
Total (decrease) increase		(6,334)	6,334

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at December 31, 2015.

2. Interest rate risk

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

24. 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, 2015.

25. GOVERNMENT ASSISTANCE

a) During the year ended December 31, 2012, the Company was approved for a second agreement for non-repayable funding in the amount of $124,000 from AITF. During the current year, the Company received $nil (2014 – $18,333) which was recorded as a reduction of research and project development expenses. This agreement was completed at December 31, 2014.

b) The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the years from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to $671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended one year to September 30, 2013. All amounts claimed under the program are repayable interest free over eight years beginning in 2014. The Company received or recorded as receivable funding of $671,068 to December 31, 2013 under this program and no further funds are expected (see note 13).

c) During the year ended December 31, 2011, the Company entered into a Contribution Agreement with AI-Bio Solutions for a non-repayable grant contribution totaling up to $1,600,000 towards the construction of a new bio-processing facility and subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received $750,000 in 2011, and received $690,000 in 2013. No amounts have been received during the years ended December 31, 2015 or 2014. A final payment of $160,000 is expected to be received in 2016 and will be recorded as a reduction of capitalized expenditures.

d) During the year ended December 31, 2013, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding in an amount up to $673,000. During the year ended December 31, 2015, the Company received or recorded as receivable the amount of $79,640 (2014 – $300,254) of which $79,640 (2014 – $294,623) was recorded as a reduction of capitalized expenditures. The project has been completed at December 31, 2015.

e) During the year ended December 31, 2014, the Company entered into a non-repayable grant agreement with AI-Bio Solutions to provide funding of up to $198,000 for certain research activities. During the year ended December 31, 2015, the Company received $nil (2014 – $89,100). An amount of $66,983 (2014 – $22,117) was expended on the research project. The Company anticipates receiving up to $108,900 in 2016.

f) During the year ended December 31, 2014, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $52,500 for certain research activities. During the year ended December 31, 2015, the Company received or recorded as a receivable $8,443 (2014 – $20,242). The project has been completed at December 31, 2015.

25. GOVERNMENT ASSISTANCE (CONTINUED)

g) During the year ended December 31, 2015, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $52,000 for certain research activities. During the year ended December 31, 2015, the Company received or recorded as a receivable $14,083. The Company received an additional $5,791 in 2016 and the project was completed.

h) During the year ended December 31, 2015, the Company entered into a contribution agreement with AIBio Solutions for a non-repayable funding contribution of $800,000 to implement the commercialization scale-up of the Company's Pressurized Gas Expanded (PGX) Technology. During the year, the Company received $300,000 which has been recorded as deferred revenue at December 31, 2015. The Company anticipates receiving an additional $400,000 in 2016 and $100,000 in 2017.

i) During the year ended December 31, 2015, the Company entered into a contribution agreement with Industrial Research Assistance Program (IRAP) for non-repayable funding of up to a maximum of $350,000 for costs incurred on the demonstration and testing of the Company's PGX Technology. During the year ended December 31, 2015, the Company received or recorded as a receivable $54,234 which has been recorded as a reduction of research and project development expenses. The Company anticipates receiving up to $295,766 over the period January 1, 2016 to February 28, 2017.

26. INCOME PER COMMON SHARE

Year Ended December 31,	**2015**	2014
Net income for the year for basic and diluted earnings per share calculation	**$4,922,151**	$1,593,795
Weighted average number of common shares outstanding	**61,804,259**	60,901,619
Effect of dilutive stock options	**1,895,747**	1,632,028
Effect of dilutive convertible debentures	**1,500,000**	–
Diluted weighted average number of common shares	**65,200,006**	62,533,647
Income per share – basic	**$0.08**	$0.03
Income per share – diluted	**$0.08**	$0.03

For the year ended December 31, 2015, 1,163,334 outstanding stock options (December 31, 2014 – 316,666) have not been included in the diluted income per share calculation because either the options' exercise price or the unvested options' exercise price taking into consideration remaining share-based payments were greater than the average market price of the common shares during the year.

Interest on the convertible debentures is capitalized as a borrowing cost to the new manufacturing facility under construction and therefore, the dilutive impact from the potential conversion of the convertible debentures is limited only to an increase in the diluted weighted average number of common shares outstanding.

27. SUBSEQUENT EVENTS

a) On April 6, 2016, the Company announced the signing of the renewal of a long-term distribution agreement with Symrise AG, a German-based multinational.

b) On April 1, 2016, the Company completed a vertical amalgamation with its wholly-owned subsidiary Ceapro Veterinary Products Inc.

c) Subsequent to the year end, 145,000 options were exercised for a weighted average price of $0.10 per common share and gross proceeds of $14,500.

Investor Information – April 13, 2016

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Gilles Gagnon, President & CEO
Dr. Ulrich Kosciessa
Dr. William W. Li
Donald Oborowsky
John Zupancic

OFFICERS
Gilles Gagnon, M.Sc., MBA
President & CEO

Stacy Prefontaine, CPA, CA
Chief Financial Officer
Corporate Secretary

STOCK INFORMATION
Listed on the TSX Venture Stock Exchange
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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 held on:

June 1, 2016 at 10:00 am MDT

Location:
The Westin Edmonton – Devonian Room
10135 100 Street
Edmonton, Alberta
Canada T5J 0N7

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.

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