CEAPRO
Nature Enhancing Life™

TSX-V: CZO

Q2 2016

Unaudited Condensed Consolidated Financial Statements for the Second Quarter ended June 30, 2016

The MD&A provides commentary on the results of operations for the periods ended June 30, 2016 and 2015, the financial position as at June 30, 2016, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at August 23, 2016. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at June 30, 2016, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2015, which are prepared in accordance with International Financial Reporting Standards (IFRS) and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2015. All comparative percentages are between the periods ended June 30, 2016 and 2015 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A offers our assessment of Ceapro's future plans and operations as at August 23, 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 96% of trade receivables are due from two customers at June 30, 2016 (December 31, 2015 – 93% from two customers) and all trade receivables at June 30, 2016 and December 31, 2015 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 $909,934 at June 30, 2016 (December 31, 2015 - $1,681,125) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

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

	within 1 year	1 to 3 years	3 to 5 years	over 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	1,906,688	-	-	-	1,906,688
Long-term debt	1,086,966	1,674,796	214,282	-	2,976,044
Convertible debentures	998,610	-	-	-	998,610
CAAP loan	83,884	167,767	167,767	83,884	503,302
Total	4,076,148	1,842,563	382,049	83,884	6,384,644

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	1,023,937	10,239	(10,239)
Financial liabilities			
Accounts payable and accrued liabilities	291,960	(2,920)	2,920
Total increase (decrease)		7,319	(7,319)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial liabilities			
Long-term debt	534,417	(5,344)	5,344
Total (decrease) increase		(5,344)	5,344

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 June 30, 2016.

2. Interest rate risk

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

d) Share price risk

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

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

e) People and process risk

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

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

f) Loss of key personnel

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

g) Interruption of raw material supply

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

h) Environmental issues

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

i) Regulatory compliance

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

Future accounting policies not yet adopted

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

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

IFRS 9 "Financial instruments"

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

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

IFRS 15 “Revenue from Contracts with Customers”

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

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

IFRS 16 “Leases”

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

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

Results of Operations

Periods Ended June 30, 2016 and 2015

CONSOLIDATED INCOME STATEMENT

	Quarters Ended June 30,				**Six Months Ended June 30,**			
$000s except per share data	2016	**%**	2015	%	2016	%	2015	%
Total revenues	**4,168**	**100%**	**2,439**	**100%**	**8,231**	**100%**	**4,154**	**100%**
Cost of goods sold	1,154	28%	690	28%	2,383	29%	1,613	39%
Gross margin	**3,014**	**72%**	**1,749**	**72%**	**5,848**	**71%**	**2,541**	**61%**
Research and product development	(61)	-1%	237	10%	267	3%	343	8%
General and administration	524	13%	629	26%	1,020	12%	1,431	34%
Sales and marketing	1	0%	3	0%	3	0%	6	0%
Finance costs	49	1%	37	2%	147	2%	144	3%
Income from operations	**2,501**	**60%**	**843**	**35%**	**4,411**	**54%**	**617**	**15%**
Other operating loss	(143)	-3%	(185)	-8%	(319)	-4%	(189)	-5%
Income before tax	**2,358**	**57%**	**658**	**27%**	**4,092**	50%	**428**	10%
Income tax (expense) recovery	(722)	-17%	-	0%	(1,243)	-15%	36	1%
Net income	**1,636**	**39%**	**658**	**27%**	**2,849**	**35%**	**464**	**11%**
Basic net income per common share	0.026		0.011		0.045		0.008	
Diluted net income per common share	0.025		0.010		0.043		0.007	

During the three month period ended March 31, 2016, the Company incurred a tax expense of $521,000 relating to the estimated taxable income generated during the period. The Company utilized investment tax credits to reduce federal income taxes payable and recognized a current income tax payable for the provincial income taxes payable.

During the three month period ended June 30, 2016, the Company incurred a tax expense of $722,000 relating to the estimated taxable income generated during the period and other tax adjustments relating to the filing of pre-amalgamation tax returns. The Company utilized deferred tax assets against the estimated taxable income generated during the three month period resulting in no additional current income tax payable.

The following sections discuss the remaining results from operations.

Revenue

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2016	2015		2016	2015	
Total revenues	4,168	2,439	71%	8,231	4,154	98%

PRODUCT SALES

Product sales for the second quarter ended June 30, 2016, continued the trend from the first quarter of fiscal 2016 and set another new record for the highest quarterly sales volume in the Company's history. Sales growth in the quarter was primarily driven by higher sales of beta glucan although sales also increased for the Company's other value driver avenanthramides. Revenue increased by $1,729,000 or 71% over the comparative quarter

Revenue of $8,200,000 for the first six months of 2016 represents a 98% increase over the first six months of 2015. Ceapro has continued to benefit from a significant growth in the volume of product sales and a higher U.S. dollar relative to the Canadian dollar compared to the prior comparative period.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2016	2015		2016	2015	
Sales	4,168	2,439	71%	8,231	4,154	98%
Cost of goods sold	1,154	690	67%	2,383	1,613	48%
Gross margin	3,014	1,749	72%	5,848	2,541	130%
Gross margin %	72%	72%		71%	61%	

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 second quarter of fiscal 2016, cost of goods sold increased by $464,000 or 67% from $690,000 in 2015 to $1,154,000 in 2016. The increase in cost of goods sold results primarily from a similar increase in sales which has resulted in a similar increase in the gross margin. The gross margin percentage of 72% remains consistent with the improved margin percentage experienced in the second quarter of fiscal 2015.

The improved gross margin and gross margin percentage for the six month period ended June 30, 2016 compared to the comparative period in 2015 reflects the positive operating improvements that were first experienced in the second quarter of fiscal 2015 and have continued to date. These higher production efficiencies resulted from factors such as high output generated from favourable feedstock and from continuous production shifts. Other positive factors that have lowered cost of sales and/or positively impacted the gross margin include a higher US dollar exchange rate which positively impacts sales and the gross margin percentage, the impact of different product mix margins, and significantly lower non-cash share-based payment expenses in the current period. The high share-based payment expense in the prior six month period was due to a large stock option grant in the first quarter of 2015 whereas in the current six month period no options have been granted that have impacted cost of goods sold.

RESEARCH AND PRODUCT DEVELOPMENT

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2016	2015		2016	2015	
Salaries and benefits	109	66		221	146	
Regulatory and patents	18	93		100	102	
Other	(188)	77		(54)	94	
Total research and product development expenditures	(61)	236	-126%	267	342	-22%
Product development - CeaProve®	-	1	-100%	-	1	-100%
Total research and product development expenditures	(61)	237	-126%	267	343	-22%

During the second quarter of fiscal 2016 research and development expenses before CeaProve® decreased by 126% or $297,000 in comparison with the same period in 2015. The decrease is partially due to the receipt of grant funding during the second quarter of 2016 for an expense incurred in the first quarter of 2016, partially due to the recognition of scientific research and development tax credits during the quarter and partially due to the timing of patent renewals. In the prior year most of the patent renewals occurred in the second quarter whereas in the current year a significant portion of patent renewals occurred in the first quarter. This has been offset by higher salary costs than the comparative quarter due to having significantly more research and development staff compared with the prior quarter which was offset by the receipt of grant funding for some key staff who are working primarily on the Company's Pressurized Gas Expanded (PGX) Technology.

During the six month period ended June 30, 2016 the overall investment in research and development expenses before CeaProve® is lower than the prior comparative period due to the recognition of scientific research and development tax credits during the period which was offset by the noted increase in research and development staff and the higher salary costs.

CeaProve® expenditures relate to patent renewals which are generally incurred in the second half of the year.

GENERAL AND ADMINISTRATION

$000s	Quarters Ended June 30, 2016	2015	Change	Six Months Ended June 30, 2016	2015	Change
Salaries and benefits	95	200		197	428	
Consulting	64	65		131	132	
Board of directors compensation	51	90		108	208	
Insurance	30	29		61	60	
Accounting and audit fees	36	16		60	37	
Rent	22	21		44	46	
Public company costs	83	76		144	118	
Travel	44	34		71	65	
Depreciation	40	44		78	88	
Legal	10	13		31	175	
Other	49	41		95	74	
Total general and administration expenses	524	629	-17%	1,020	1,431	-29%

General and administration expense for the quarter ended June 30, 2016 decreased by $105,000 or 17% over the prior period. The decrease was partially due to lower salaries and benefits expense. In the prior period there was a large non-cash share-based payment accounting charge relating to stock options granted to employees, additional hires, and lump sum payments were made to a former officer. In the current period the Company did not have a significant option granting so the share-based payment charges were considerably lower. Board of Directors compensation expense was also significantly lower. In the prior period there was a large non-cash accounting charge that resulted from the granting of stock options to new and existing directors and in the current period no options were granted to directors. These lower expenses were offset by an increase in accounting and audit fees during the quarter relating to an increase in tax consulting expenses and from expenses related to the amalgamation of the Company's wholly owned subsidiary Ceapro Veterinary Products Inc. as well as due to an increase in public company costs driven by increased communication and website development costs.

During the six month period ended June 30, 2016 general and administration expenses decreased by $411,000 or 29% from $1,431,000 to $1,020,000. The overall decrease was due to the same factors that caused the decrease in the second quarter as well as due to the significant decrease in legal fees as the AVAC trial was completed in the first six months of the prior year and there were no corresponding legal fees in the current six month period.

SALES AND MARKETING

$000s	Quarters Ended June 30, 2016	2015	Change	Six Months Ended June 30, 2016	2015	Change
Courses, conferences & advertising	-	2		1	5	
Other	1	1		2	1	
Total sales and marketing	1	3	-67%	3	6	-50%

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

FINANCE COSTS

$000s	Quarters Ended June 30, 2016	2015	Change	Six Months Ended June 30, 2016	2015	Change
Interest on long-term debt	11	15		22	26	
Interest on convertible debentures	-	(14)		-	-	
Transaction costs	7	6		13	12	
Royalties	-	-		50	50	
Accretion of CAAP loan	12	13		24	26	
Accretion of convertible debentures	19	17		38	30	
	49	37	32%	147	144	2%

Finance costs increased by 32% or $12,000 in the second quarter ended June 30, 2016 from $37,000 in 2015 to $49,000. The increase primarily relates to an adjustment that was booked in the second quarter of fiscal 2015 to capitalize previously expensed interest on convertible debentures as a specific borrowing cost relating to the construction of the new manufacturing facility.

Finance costs for the six month period ended June 30, 2016 only increased by 2% from $144,000 in the comparative period to $147,000 in the current period. The increase is primarily a result of a higher accretion expense relating to the convertible debentures offset partially by a lower interest expense on long-term debt.

OTHER OPERATING LOSS

$000s	Quarters Ended June 30, 2016	2015	Change	Six Months Ended June 30, 2016	2015	Change
Foreign exchange loss	7	101		45	25	
Other loss (income)	-	(4)		1	(15)	
Plant relocation costs	136	88		273	179	
	143	185	-23%	319	189	69%

During the six month period ended June 30, 2016, other operating loss increased by $130,000 or 69% from $189,000 in 2015 to $319,000. The increase was primarily due to an increase in plant relocation costs of $94,000 compared to the prior period. Plant relocation costs represent costs incurred relating to the new manufacturing facility that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized. In the six month period ended June 30, 2016, these costs are higher than that of the comparative period primarily because the Company is now paying additional rent for the 10,000 square foot expansion of the new facility.

During the quarter ended June 30, 2016, other operating loss decreased by $42,000 or 23% from $185,000 in 2015 to $143,000. Although plant relocation costs increased during the quarter, consistent with the increase experienced in the six month period, the total loss for the quarter decreased overall due to foreign exchange. The foreign exchange loss incurred in the quarter was $94,000 lower than the loss incurred in the comparative quarter.

The Company's foreign exchange losses are primarily due to the translation of US dollar denominated accounts receivable, accounts payable and deferred revenue balances, and from the timing of the realization of these balances. Foreign exchange will fluctuate between the quarters due to fluctuations between the US dollar and the Canadian dollar. The current six month period loss was partially offset by the realization of a $38,000 (2015 - $11,000) gain from the translation of the Company's Euro denominated debt due to a slightly weaker Euro at June 30, 2016 compared with December 31, 2015.

DEPRECIATION AND AMORTIZATION EXPENSE

In the six month period ended June 30, 2016, the total depreciation and amortization expense of $191,000 (2015 - $198,000) was allocated as follows: $80,000 to general and administration expense (2015 - $90,000), $38,000 to inventory (2015 - $47,000), and $73,000 (2015 - $61,000) to cost of goods sold. The expense is slightly lower than the prior year as the depreciable base of manufacturing equipment currently in use and assets used in the corporate head office is lower than the prior year.

Quarterly Information

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

$000s except per share data	2016		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues	4,168	4,064	3,435	3,079	2,439	1,714	2,059	2,445
Net income (loss)	1,636	1,213	3,452	1,006	658	(194)	97	690
Basic net income (loss) per common share	0.026	0.019	0.056	0.016	0.011	(0.003)	0.002	0.011
Diluted net income (loss) per common share	0.025	0.018	0.052	0.016	0.010	(0.003)	0.001	0.011

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	June 30, 2016	December 31, 2015
Non-current assets	13,988	11,857
Current assets	3,391	3,846
Current liabilities	(4,460)	(5,203)
Total assets less current liabilities	12,919	10,500
Non-current liabilities	2,013	2,624
Shareholders' equity	10,906	7,876
Total capital employed	12,919	10,500

Non-current assets increased by $2,131,000 primarily due to an acquisition of $3,369,000 of property and equipment net of grants and a $1,000 increase in deposits held offset by a depreciation provision of $191,000 and a reduction of deferred tax assets of $932,000 largely due to the utilization of deferred tax assets against estimated taxable income during the period. The decrease was also attributable to a net decrease in the investment tax credit receivable of $116,000 which related to the utilization of investment tax credits to offset current income taxes payable offset by the recognition of new investment tax credits from a scientific research and development claim.

Current assets decreased by $455,000. Cash decreased by $771,000, prepaid expenses and deposits decreased by $142,000, and inventories decreased by $282,000 which was offset by trade and other receivables which increased by $740,000.

Current liabilities totaling $4,460,000 decreased by the net amount of $743,000 primarily due to the recognition of $800,000 of deferred revenue and a decrease in trade payables and accrued liabilities of $99,000 which were offset by an increase in current income taxes payable of $106,000, an increase in the current portion of long-term debt of $4,000, an increase in the current portion of the CAAP loan of $5,000 and an increase of $42,000 on the convertible debentures from accretion and the amortization of transaction fees.

Non-current liabilities totaling $2,013,000 decreased by the net amount of $611,000 mostly due to the repayment of long-term debt of $519,000 and the reclassification of deferred tax liability against deferred tax assets in the amount of $112,000 and an increase in the discounted CAAP loan in the amount of $19,000.

Equity of $10,906,000 at June 30, 2016 increased by $3,030,000 from equity of $7,876,000 at December 31, 2015 primarily due to the recognition of net income of $2,849,000 for the six months ended June 30, 2016, the recognition of share-based compensation of $83,000, and an increase from the exercise of stock options of $97,000.

NET DEBT

$000s	June 30, 2016	December 31, 2015
Cash and cash equivalents, net of restricted cash	628	1,381
Current financial liabilities*	3,888	3,935
Non-current financial liabilities*	2,013	2,513
Total financial liabilities	5,901	6,448
NET DEBT	5,273	5,067

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

The Company's net debt increased by $206,000. The increase was due to a decrease of non-restricted cash and cash equivalents of $753,000, an increase in the convertible debenture from accretion and the amortization of transaction fees of $42,000 and an increase in the CAAP loan from accretion of $24,000 which was offset by a reduction in long-term debt from repayments of $485,000 and a $38,000 foreign exchange adjustment partially offset by the amortization of loan transaction fees of $9,000, and a decrease in accounts payable and accrued liabilities of $99,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended June 30, 2016 and 2015.

	Quarters Ended June 30,		Six Months Ended June 30,	
$000s	2016	2015	2016	2015
Sources of funds:				
Funds generated from operations (cash flow)	2,547	922	4,002	1,104
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	10	25	-	-
Grant used for capital assets	18	-	18	80
Share issuance	83	8	97	30
Convertible debentures	-	-	-	960
Long-term debt	-	425	-	715
	2,658	1,380	4,117	2,889
Uses of funds:				
Purchase of property and equipment	(778)	(380)	(1,254)	(573)
Purchase of leasehold improvements	(964)	(327)	(2,046)	(590)
Employee future benefits obligation repayment	-	-	-	(127)
Changes in non-cash working capital items relating to operating activities	(1,709)	(411)	(835)	(719)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	-	-	(159)	(46)
Interest paid	(53)	(59)	(109)	(106)
Repayment of royalty financial liability	-	-	-	(43)
Transaction costs	-	(3)	-	(29)
Repayment of long-term debt	(243)	(189)	(485)	(379)
	(3,747)	(1,369)	(4,888)	(2,612)
Net change in cash flows	(1,089)	11	(771)	277

Net change in cash flow was a decrease of $771,000 during the six month period ended June 30, 2016 in comparison with an increase of $277,000 for the same period in 2015. Although the Company generated significantly more funds from operations during the current six month period, $4,002,000 compared to $1,104,000 generated in the comparative period, the Company used those cash flows to make a significantly larger investment on its new manufacturing facility.

The reinvestment of operating cash flows into the Company's new manufacturing facility resulted in a working capital deficiency of $1,069,349 at June 30, 2016. Although construction on the new manufacturing facility was materially completed and the Company had commenced the commissioning phase of the project, the estimated costs to complete the manufacturing facility at June 30, 2016, including completion of the commissioning phase and validation trials was estimated to be approximately $550,000. The Company addressed the working capital deficiency that existed at June 30, 2016, secured the necessary capital to complete the manufacturing facility, and secured the capital needed to proceed with previously disclosed research and development projects and upcoming clinical trials with a successful equity financing in July, 2016.

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

Echelon Wealth Partners Inc. ("Echelon") acted as sole agent in connection with the offering. The Company paid Echelon a cash commission of $700,000 representing 7% of the gross proceeds raised. Echelon also received 660,377 compensation broker unit warrants (each a "Broker Unit Warrant) representing 7% of the total common shares issued in connection with the offering. Each Broker Unit Warrant entitles Echelon to acquire one common share (each a "Broker Share") and one-half of one common share purchase warrant (each a "Broker Warrant") at a price of $1.06 for a period of 24 months following the closing of each tranche of the offering. Each whole Broker Warrant entitles Echelon to acquire one additional common share (each a "Broker Warrant Share") at an exercise price of $1.50 for a period of 24 months following the closing of each tranche of the offering.

All securities issued pursuant to the offering will be subject to a statutory hold period expiring four months and one day after the closing of each tranche of the offering.

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. Following the closing of the above noted offering, 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, maintain capital investment and service debt needs.

To meet future requirements, Ceapro intends to raise additional cash through some or all of the following methods: public or private equity or debt financing, income offerings, capital leases, collaborative and licensing agreements, potential strategic alliances with partners, government programs, and other sources. There can be no assurance that the Company will be able to access capital when needed.

The ability to generate new cash will depend on external factors, many beyond the Company's control, as outlined in the Risks and Uncertainties section. Should sufficient capital not be raised, Ceapro may have to delay, reduce the scope of, eliminate, or divest one or more of its discovery, research, or development technology or programs, any of which could impair the value of the business.

Total common shares issued and outstanding as at August 23, 2016 were 72,619,781 (August 25, 2015 – 61,927,281). In addition, 2,843,335 stock options, 4,716,981 warrants, and 660,377 broker unit warrants as at August 23, 2016 (August 25, 2015 – 3,756,667 stock options) were outstanding that are potentially convertible into an equal number of common shares at various prices.

GOVERNMENT FUNDING

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

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

c) During the year ended December 31, 2013, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding in an amount up to $673,000. During the year ended December 31, 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 was completed during the year ended December 31, 2015.

d) During the year ended December 31, 2014, the Company entered into a non-repayable grant agreement with AI-Bio Solutions to provide funding of up to $198,000 for certain research activities. During the year ended December 31, 2015, the Company received $nil (2014 - $89,100). An amount of $66,983 (2014 - $22,117) was expended on the research project. During the six months ended June 30, 2016, the Company received $89,100 which was fully expended on the research project. The Company anticipates receiving a final payment of up to $19,800 in 2017.

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

f) During the year ended December 31, 2015, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $52,000 for certain research activities. During the year ended December 31, 2015, the Company received or recorded as a receivable $14,083. During the six month period ended June 30, 2016 the Company received an additional $5,791 (June 30, 2015 - $nil) and the project was completed.

g) During the year ended December 31, 2015, the Company entered into a contribution agreement with AI-Bio Solutions for a non-repayable funding contribution of $800,000 to implement the commercialization scale-up of the Company's Pressurized Gas Expanded (PGX) Technology. During the year ended December 31, 2015, the Company received $300,000 and the balance was recorded as deferred revenue at December 31, 2015. During the six months ended June 30, 2016 the company recognized $17,572 as a reduction of capital expenditures and the balance of $282,428 remains recorded as deferred revenue at June 30, 2016. The Company anticipates receiving an additional $400,000 in 2016 and $100,000 in 2017.

h) During the year ended December 31, 2015, the Company entered into a contribution agreement with Industrial Research Assistance Program (IRAP) for non-repayable funding of up to a maximum of $350,000 for costs incurred on the demonstration and testing of the Company's PGX Technology. During the year ended December 31, 2015, the Company received or recorded as a receivable $54,234 which was recorded as a reduction of research and project development expenses. During the six month period ended June 30, 2016 the Company received or recorded as a receivable $137,230 (June 30, 2015 - $nil) which has been recorded as a reduction of research and project development expenses. The Company anticipates receiving up to $158,536 over the period from July 1, 2016 to February 28, 2017.

i) During the six months ended June 30, 2016, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $33,000 for certain research activities. The Company anticipates receiving up to $33,000 over the period from July 1, 2016 to February 28, 2017.

Related Party Transactions

During the six month period ended June 30, 2016, $3,000 (2015 - $2,000) of interest was earned by a company controlled by an officer and by a close family member of a director from their $75,000 (2015 - $75,000) investments in the convertible debenture financing.

During the six month period ended June 30, 2016, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $283,000 (2015 – $266,000) and share-based payments expense for key management personnel was $40,000 (2015 - $220,000).

The amount payable to directors at June 30, 2016 was $80,000 (2015 - $69,000). Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities at June 30, 2016 was $21,000 (2015 - $21,000).

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

Commitments and Contingencies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Outlook

We are very pleased with the results of the second quarter and the first half of 2016 showing the highest revenues in Ceapro's history with respective increases of 71% and 98% over the corresponding periods in 2015 as well as showing a net profit of $2,849,000 for the first six month period of 2016 compared to a net profit of $464,000 for the same period in 2015.

We are confident that the renewal of a long term agreement with our major distributor Symrise AG and the foreseen continued strength of the US dollar will continue to secure our base business in cosmeceuticals.

While we are completing the implementation and commissioning of the new manufacturing facility during the third quarter of 2016, we are initiating 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 are actively pursuing an extensive research program with our proprietary PGX platform technology for which we have the worldwide rights for all industrial applications. We view this as a game changer for Ceapro and are investing the necessary resources to advance the design and implementation of a customized PGX unit at demonstration and commercial scale levels.

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.

Unaudited Condensed Consolidated Financial Statements for the Second Quarter Ended June 30, 2016

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

	June 30, 2016	December 31, 2015
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	909,934	1,681,125
Trade receivables	1,332,038	538,995
Other receivables	71,462	124,132
Inventories (note 4)	960,302	1,242,417
Prepaid expenses and deposits	117,489	259,560
	3,391,225	3,846,229
Non-Current Assets		
Investment tax credits receivable	487,339	603,302
Deposits	94,309	93,264
Licenses (note 5)	31,848	33,329
Property and equipment (note 6)	13,047,816	9,868,676
Deferred tax assets	326,578	1,258,674
	13,987,890	11,857,245
TOTAL ASSETS	17,379,115	15,703,474
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	1,906,688	2,005,611
Deferred revenue (note 9)	372,328	1,172,198
Current portion of long-term debt (note 7)	988,291	984,318
Convertible debentures (note 8)	914,569	872,355
Current portion of CAAP loan (note 11)	77,858	72,942
Income tax payable	200,840	95,180
	4,460,574	5,202,604
Non-Current Liabilities		
Long-term debt (note 7)	1,758,369	2,277,186
CAAP loan (note 11)	254,484	235,529
Deferred tax liabilities	-	111,621
	2,012,853	2,624,336
TOTAL LIABILITIES	6,473,427	7,826,940
Equity		
Share capital (note 10)	6,973,903	6,800,018
Equity component of convertible debentures (note 8)	106,200	106,200
Contributed surplus	1,035,643	1,029,564
Retained earnings (deficit)	2,789,942	(59,248)
	10,905,688	7,876,534
TOTAL LIABILITIES AND EQUITY	17,379,115	15,703,474

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

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

	Quarters Ended June 30, 2016	Quarters Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	$	$	$	$
Revenue (note 15)	4,167,855	2,439,366	8,231,431	4,153,851
Cost of goods sold	1,153,517	690,229	2,383,280	1,612,615
Gross margin	3,014,338	1,749,137	5,848,151	2,541,236
Research and product development	(61,251)	236,835	266,581	342,742
General and administration	524,858	629,225	1,020,504	1,431,158
Sales and marketing	643	3,506	2,829	6,673
Finance costs (note 14)	48,896	37,024	147,377	143,774
Income from operations	2,501,192	842,547	4,410,860	616,889
Other operating loss (note 13)	(143,587)	(184,823)	(319,279)	(189,253)
Income before tax	2,357,605	657,724	4,091,581	427,636
Income taxes				
Current tax expense	36,090	-	(421,916)	-
Deferred tax (expense) recovery	(757,897)	-	(820,475)	36,250
Income tax (expense) recovery	(721,807)	-	(1,242,391)	36,250
Total comprehensive income for the period	1,635,798	657,724	2,849,190	463,886
Net income per common share (note 20):				
Basic	0.03	0.01	0.05	0.01
Diluted	0.02	0.01	0.04	0.01
Weighted average number of common shares outstanding (note 20):				
Basic	62,879,483	61,669,149	62,731,361	61,605,706
Diluted	66,476,458	65,843,789	66,106,894	65,298,020

See accompanying notes

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

	Share capital $	Contributed surplus $	Equity component of convertible debentures $	Retained earnings (Deficit) $	Accumulated other comprehensive loss $	Total Equity $
Balance December 31, 2015	6,800,018	1,029,564	106,200	(59,248)	-	7,876,534
Share-based payments	-	82,531	-	-	-	82,531
Stock options exercised	173,885	(76,452)	-	-	-	97,433
Net income for the period	-	-	-	2,849,190	-	2,849,190
Balance June 30, 2016	6,973,903	1,035,643	106,200	2,789,942	-	10,905,688
Balance December 31, 2014	6,565,927	507,505	-	(4,964,483)	(16,916)	2,092,033
Share-based payments	-	395,856	-	-	-	395,856
Stock options exercised	48,876	(18,793)	-	-	-	30,083
Convertible debentures, net of tax of $36,250 (note 8)	-	-	106,200	-	-	106,200
Future benefit obligation	-	-	-	(16,916)	16,916	-
Net income for the period	-	-	-	463,886	-	463,886
Balance June 30, 2015	6,614,803	884,568	106,200	(4,517,513)	-	3,088,058

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

Six Months Ended June 30,	2016 $	2015 $
OPERATING ACTIVITIES		
Net income for the period	2,849,190	463,886
Adjustments for items not involving cash		
Finance costs	22,270	25,815
Transaction costs	12,744	11,843
Depreciation and amortization	190,708	197,546
Unrealized foreign exchange gain on long-term debt	(38,346)	(10,718)
Accretion	62,363	56,116
Deferred tax expense (recovery)	820,475	(36,250)
Share-based payments	82,531	395,856
Net income for the period adjusted for non-cash items	4,001,935	1,104,094
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(793,043)	(395,580)
Other receivables	52,670	188,805
Investment tax credits receivable	115,963	-
Inventories	282,115	(376,484)
Prepaid expenses and deposits	141,026	(61,984)
Deferred revenue	(799,870)	462,483
Income tax payable	105,660	-
Accounts payable and accrued liabilities relating to operating activities	60,615	(536,321)
Total changes in non-cash working capital items	(834,864)	(719,081)
Net income for the period adjusted for non-cash and working capital items	3,167,071	385,013
Interest paid	(108,552)	(105,751)
CASH GENERATED FROM OPERATIONS	3,058,519	279,262
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,253,669)	(572,757)
Purchase of leasehold improvements	(2,045,988)	(589,649)
Accounts payable and accrued liabilities relating to investing activities	(159,538)	(46,025)
CASH USED BY INVESTING ACTIVITIES	(3,459,195)	(1,208,431)
FINANCING ACTIVITIES		
Long-term debt	-	715,000
Convertible debentures	-	960,000
Employee future benefits obligation repayment	-	(127,009)
Stock options exercised	97,433	30,083
Transaction costs	-	(28,802)
Repayment of long-term debt	(485,520)	(379,375)
Grant used for purchasing of leaseholds, property and equipment	17,572	79,655
Repayment of royalty financial liability	-	(43,075)
CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	(370,515)	1,206,477
Increase (decrease) in cash and cash equivalents	(771,191)	277,308
Cash and cash equivalents at beginning of the period	1,681,125	272,845
Cash and cash equivalents at end of the period	909,934	550,153

See accompanying notes

Cash and cash equivalents are comprised of $620,668 (2015 - $493,362) on deposit with financial institutions, $282,428 (2015 - $50,000) restricted cash on deposit with financial institutions (see note 9), and $6,838 (2015 - $6,791) held in money market mutual funds.

1. NATURE OF BUSINESS OPERATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of consolidated financial statements, including IFRS 34, "Interim Financial Reporting". The accounting principles and methods of computation adopted in these financial statements are the same as those of the annual financial statements for the year ended December 31, 2015.

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements. The financial statements and notes presented should be read in conjunction with the annual financial statements for the year ended December 31, 2015.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on August 23, 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 Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., and Ceapro USA Inc. On April 1, 2016, the Company completed a vertical amalgamation with its wholly-owned subsidiary Ceapro Veterinary Products Inc.

All intercompany accounts and transactions have been eliminated on consolidation.

3. CHANGES IN ACCOUNTING POLICIES

Future accounting policies not yet adopted

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

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

IFRS 9 “Financial instruments”

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

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

IFRS 15 “Revenue from Contracts with Customers”

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

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

IFRS 16 “Leases”

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

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

4. INVENTORIES

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

	June 30, 2016 $	December 31, 2015 $
Raw materials	375,230	223,261
Work in progress	180,191	376,938
Finished goods	404,881	642,218
	960,302	1,242,417

Inventories expensed to cost of goods sold during the six month period ended June 30, 2016 are $2,342,957 (June 30, 2015 - $1,576,082).

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 17 (d)).

During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and commenced amortizing the licence over 15 years, in April 2012. Amortization of $1,481 has been included in general and administration for the period ended June 30, 2016 (June 30, 2015 - $1,481) (see note 17 (c)).

Cost of licences	$
Balance - December 31, 2015	44,439
Additions	-
Balance - June 30, 2016	44,439
Accumulated amortization	
Balance - December 31, 2015	11,110
Amortization	1,481
Balance - June 30, 2016	12,591
Net book value	
Balance - June 30, 2016	31,848
Balance - December 31, 2015	33,329

6. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
December 31, 2015	3,237,230	3,729,253	305,446	401,396	5,328,120	13,001,445
Additions	1,016,448	268,802	-	11,560	2,089,129	3,385,939
Cost reduced by grant	-	(17,572)	-	-	-	(17,572)
Disposal	-	-	-	-	-	-
June 30, 2016	4,253,678	3,980,483	305,446	412,956	7,417,249	16,369,812
Accumulated Depreciation						
December 31, 2015	-	2,512,970	119,826	301,357	198,616	3,132,769
Additions	-	124,869	18,488	15,212	30,658	189,227
Disposal	-	-	-	-	-	-
June 30, 2016	-	2,637,839	138,314	316,569	229,274	3,321,996
Carrying Value						
June 30, 2016	4,253,678	1,342,644	167,132	96,387	7,187,975	13,047,816
December 31, 2015	3,237,230	1,216,283	185,620	100,039	5,129,504	9,868,676

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Six Months Ended June 30, 2016	73,421	37,863	77,943	189,227
Six Months Ended June 30, 2015	61,461	46,847	87,757	196,065

The carrying value of the leasehold improvements and equipment not available for use represent the accumulated expenditures incurred on the construction of a new manufacturing facility, net of government funding received and amortization taken on leasehold improvements to date. At June 30, 2016 the cost to complete the facility including the commissioning phase and validation trials is estimated at approximately $550,000.

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 $43,141 and capitalized employee salaries and benefits of $126,730 arising directly from the construction of the new manufacturing equipment and production process. Included in leasehold improvement additions are capitalized borrowing costs of $43,141 and capitalized employee salaries and benefits of $54,120 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%.

7. LONG-TERM DEBT

	June 30, 2016 $	December 31, 2015 $
Loan payable secured by a general security agreement, due January, 2018 (a).	307,409	400,847
Loan payable secured by certain intellectual property, due January, 2019 (b).	767,102	951,921
Loan payable secured by a general security agreement, due April, 2019 (c).	946,148	1,101,982
Loan payable secured by a forklift, due June, 2018 (d).	25,506	31,681
Loan payable secured by a general security agreement, due July, 2020 (e).	747,947	831,547
Transaction costs	(47,452)	(56,474)
	2,746,660	3,261,504
Less current portion	988,291	984,318
	1,758,369	2,277,186

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

Period Ended June 30, 2016	22,270
Period Ended June 30, 2015	25,815

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

(b) During the year ended December 31, 2013, the Company entered into a loan agreement with its distribution partner, Symrise, which is secured by certain intellectual property and is due January 2, 2019. The loan, for 1 million Euro, is repayable over 5 years at an interest rate of 2.85%. At June 30, 2016, the loan balance was 534,417 (December 31, 2015 – 633,390) Euro. Monthly blended principal and interest payments in the amount of 17,902 Euro commenced February 1, 2014. Based on the exchange rate at June 30, 2016, the monthly payment is $25,697 (December 31, 2015 - $26,905) in Canadian dollars.

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

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

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

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

8. CONVERTIBLE DEBENTURES

During the year ended December 31, 2015, the Company issued an aggregate of $960,000 of unsecured convertible debentures that 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
Amortization of transaction costs	3,722	-
Accretion of discount on the convertible debentures	38,492	-
June 30, 2016	914,569	106,200

9. DEFERRED REVENUE

As at December 31, 2015, the Company held $300,000 received from Alberta Innovates Bio Solutions (AI-Bio Solutions) under non-repayable grant agreements to fund research projects. During the six months ended June 30, 2016, the Company expended $17,572 of the restricted cash on equipment. The balance of the grants received of $282,428 at June 30, 2016 ($300,000 at December 31, 2015) 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 $89,900 (December 31, 2015 - $872,198) for prepaid sales orders from customers.

10. 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

	Six Months Ended June 30, 2016		Year Ended December 31, 2015	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance at beginning of the period	62,490,821	6,800,018	61,423,948	6,565,927
Stock options exercised	641,666	173,885	793,333	143,823
Shares issued for settlement of debt	-	-	273,540	90,268
Balance at end of the period	63,132,487	6,973,903	62,490,821	6,800,018

c. 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 six months ended June 30, 2016, the Company granted 160,000 (June 30, 2015 – 1,190,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock, life of the options, and forfeiture rate. The weighted average risk-free rate used in 2016 was 0.84% (2015 – 1.72%), the weighted average expected volatility was 105% (2015 - 117%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years (2015 – 10 years), forfeiture rate was 0% (2015 - 0%), the weighted average share price was $0.42 (2015 – $0.59), the weighted average exercise price was $0.42 (2015 – $0.59), and the expected dividends were nil (2015 - nil). The weighted average grant date fair value of options granted in the six months ended June 30, 2016 was $0.28 (2015 - $0.56) per option.

The share-based payments expense recorded during the current period relates to options granted in 2016, 2015, and 2014 was $82,531 (during 2015 relating to options granted in 2015, 2014, and 2013 - $395,856).

A summary of the status of the Company's stock options at June 30, 2016 and December 31, 2015 and changes during the periods ended on those dates is as follows:

	Six Months Ended June 30, 2016		Year Ended December 31, 2015	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the period	3,446,667	0.28	3,120,000	0.12
Granted	160,000	0.42	1,210,000	0.59
Exercised	(641,666)	0.15	(793,333)	0.11
Forfeited	(68,334)	0.46	(90,000)	0.34
Outstanding at end of period	2,896,667	0.31	3,446,667	0.28
Exercisable at end of period	2,388,333	0.26	2,263,332	0.20

d. Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	June 30, 2016 Number of Options	December 31, 2015 Number of Options
0.25	0.27	2025	9.1	6,667	10,000
0.25	0.27	2025	9.0	10,000	10,000
0.34	0.36	2025	8.8	150,000	150,000
0.47	0.50	2025	8.6	100,000	100,000
0.60	0.64	2025	8.5	840,000	900,000
0.37	0.27	2024	8.4	150,000	150,000
0.13	0.14	2024	7.9	250,000	250,000
0.08	0.10	2024	7.5	525,000	780,000
0.05	0.10	2023	6.5	605,000	786,667
0.09	0.10	2022	6.0	160,000	160,000
0.22	0.44	2018	1.7	100,000	-
0.11	0.15	2016		-	150,000
			7.5	2,896,667	3,446,667

11. 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:

	Six Months Ended June 30, 2016 $	Year Ended December 31, 2015 $
Opening balance	308,471	338,017
Repayment	-	(83,884)
Accretion of CAAP loan	23,871	54,338
	332,342	308,471
Less current portion	77,858	72,942
	254,484	235,529

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

12. RELATED PARTY TRANSACTIONS

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

Six Months Ended June 30,	2016 $	2015 $
Convertible debentures held by a company controlled by an officer and by a close family member of a director	75,000	75,000
Interest earned on convertible debentures held by a company controlled by an officer and by a close family member of a director	2,984	2,416
Key management salaries, short-term benefits, consulting fees, and director fees	282,918	266,136
Consulting fees and key management salaries payable to officers included in accounts payable and accrued liabilities	21,000	21,000
Key management personnel share-based payments	39,701	219,932
Amount payable to directors	80,187	69,204

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.

13. OTHER OPERATING LOSS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2016 $	2015 $	2016 $	2015 $
Foreign exchange loss	7,583	102,075	45,427	25,633
Other expense (income)	-	(5,557)	861	(15,417)
Plant relocation costs	136,004	88,305	272,991	179,037
	143,587	184,823	319,279	189,253

14. FINANCE COSTS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2016 $	2015 $	2016 $	2015 $
Interest on long-term debt	10,714	14,408	22,270	25,815
Interest on convertible debentures		(13,778)	-	-
Transaction costs	6,372	6,322	12,744	11,843
Royalties	-	-	50,000	50,000
Accretion of CAAP loan	12,158	13,322	23,871	26,157
Accretion of convertible debentures	19,652	16,750	38,492	29,959
	48,896	37,024	147,377	143,774

15. SEGMENTED INFORMATION

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
United States	2,319,232	1,493,146	4,517,614	2,774,294
Germany	1,620,378	837,585	3,338,388	1,245,672
China	147,295	80,332	236,248	80,332
Other	68,718	28,303	114,292	52,246
Canada	12,232	-	24,889	1,307
	4,167,855	2,439,366	8,231,431	4,153,851

16. EMPLOYEE BENEFITS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Employee benefits	700,242	743,876	1,338,145	1,613,962

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

17. CONTINGENCIES AND COMMITMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

	June 30, 2016		December 31, 2015	
	Book value	Fair value	Book value	Fair value
Loans and receivables:				
Cash and cash equivalents	$ 909,934	$ 909,934	$ 1,681,125	$ 1,681,125
Trade and other receivables	1,403,500	1,403,500	663,127	663,127
Other financial liabilities:				
Accounts payable and accrued liabilities	$ 1,906,688	$ 1,906,688	$ 2,005,611	$ 2,005,611
Long-term debt	2,746,660	2,746,660	3,261,504	3,261,504
Convertible debentures	914,569	914,569	872,355	872,355
CAAP loan	332,342	332,342	308,471	308,471

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

a) Credit risk

Trade and other receivables

The Company makes sales to 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 96% of trade receivables are due from two customers at June 30, 2016 (December 31, 2015 – 93% from two customers) and all trade receivables at June 30, 2016 and December 31, 2015 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 $909,934 at June 30, 2016 (December 31, 2015 - $1,681,125) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

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

	within 1 year	1 to 3 years	3 to 5 years	over 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	1,906,688	-	-	-	1,906,688
Long-term debt	1,086,966	1,674,796	214,282	-	2,976,044
Convertible debentures	998,610	-	-	-	998,610
CAAP loan	83,884	167,767	167,767	83,884	503,302
Total	4,076,148	1,842,563	382,049	83,884	6,384,644

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	1,023,937	10,239	(10,239)
Financial liabilities			
Accounts payable and accrued liabilities	291,960	(2,920)	2,920
Total increase (decrease)		7,319	(7,319)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO) -1% Earnings & Equity	+1% Earnings & Equity
Financial liabilities			
Long-term debt	534,417	(5,344)	5,344
Total (decrease) increase		(5,344)	5,344

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 June 30, 2016.

2. Interest rate risk

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

19. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the period ended June 30, 2016.

20. INCOME PER COMMON SHARE

	Quarters Ended June 30, 2016, 2016	2015	Six Months Ended June 30, 2016	2015
Net income for the period for basic and diluted earnings per share calculation	$1,635,798	$657,724	$2,849,190	$463,886
Weighted average number of common shares outstanding	62,879,483	61,669,149	62,731,361	61,605,706
Effect of dilutive stock options	2,096,975	2,674,640	1,875,533	2,192,314
Effect of dilutive convertible debentures	1,500,000	1,500,000	1,500,000	1,500,000
Diluted weighted average number of common shares	66,476,458	65,843,789	66,106,894	65,298,020
Income per share - basic	$0.03	$0.01	$0.05	$0.01
Income per share - diluted	$0.02	$0.01	$0.04	$0.01

For the six month period ended June 30, 2016, 340,000 (2015 - 1,066,667) outstanding stock options have not been included in the diluted income per share calculation because either the options' exercise price or the unvested options' exercise price taking into consideration remaining share-based payments were greater than the average market price of the common shares during the period.

For the quarter ended June 30, 2016, Nil (2015 - 1,200,000) outstanding stock options have not been included in the diluted income per share calculation because either the options' exercise price or the unvested options' exercise price taking into consideration remaining share-based payments were greater than the average market price of the common shares during the period.

Interest on the convertible debentures is capitalized as a borrowing cost to 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.

21. SUBSEQUENT EVENT

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

Echelon Wealth Partners Inc. ("Echelon") acted as sole agent in connection with the offering. The Company paid Echelon a cash commission of $700,000 representing 7% of the gross proceeds raised. Echelon also received 660,377 compensation broker unit warrants (each a "Broker Unit Warrant") representing 7% of the total common shares issued in connection with the offering. Each Broker Unit Warrant entitles Echelon to acquire one common share (each a "Broker Share") and one-half of one common share purchase warrant (each a "Broker Warrant") at a price of $1.06 for a period of 24 months following the closing of each tranche of the offering. Each whole Broker Warrant entitles Echelon to acquire one additional common share (each a "Broker Warrant Share") at an exercise price of $1.50 for a period of 24 months following the closing of each tranche of the offering.

All securities issued pursuant to the offering will be subject to a statutory hold period expiring four months and one day after the closing of each tranche of the offering.