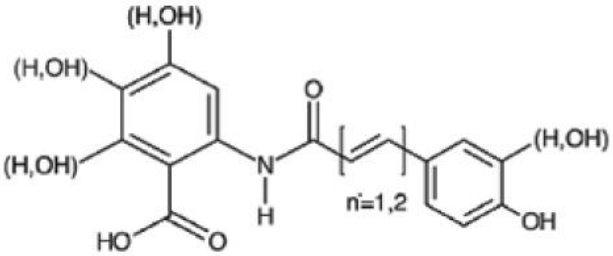

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CEAPRO
Nature Enhancing Life®

Q2 2018

Unaudited Condensed Consolidated Financial Statements for the Second Quarter ended June 30, 2018

The MD&A provides commentary on the results of operations for the periods ended June 30, 2018 and 2017, the financial position as at June 30, 2018, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at August 27, 2018. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at June 30, 2018, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2017, 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, 2017. All comparative percentages are between the periods ended June 30, 2018 and 2017 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 27, 2018 and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

Vision, Core Business, and Strategy

Ceapro is incorporated under the Canada Business Corporations Act; and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc., are incorporated under the Alberta Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Acquired on October 25, 2017, Juvente^{DC} Inc. (Juvente), is a wholly-owned subsidiary incorporated under the Canada Business Corporations Act.

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;

- A commercial line of natural anti-aging skincare products, utilizing active ingredients including beta glucan and avenanthramides, which are marketed to the cosmeceuticals market through our wholly-owned subsidiary, Juvente^{DC} Inc.; and

- Veterinary therapeutic products, including an *oat shampoo*, an *ear cleanser,* and a *dermal complex/conditioner*, which are manufactured and marketed to veterinarians in Japan and Asia.

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

- A potential platform using our *beta glucan* formulations to deliver compounds used for treatments in both personal and healthcare sectors;

- A variety of novel enabling technologies including Pressurized Gas eXpanded drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds;

- 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

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

- Identifying unique plant sources and technologies capable of generating novel active natural products;

- Increasing sales and expanding markets for our current active ingredients;

- Developing and marketing additional high-value proprietary therapeutic natural products;

- Developing and improving manufacturing technologies to ensure efficiencies; and

- Advancing new partnerships and strategic alliances to develop new commercial active ingredients with various formulations to expand our markets.

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

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

- Adding value to all aspects of our business;

- Enhancing the health of humans and animals;

- Discovering and commercializing new, therapeutic natural ingredients and bioprocessing technologies;

- Producing the highest quality work possible in products, science, and business; and

- Developing personnel through guidance, opportunities, and encouragement.

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

Risks and Uncertainties

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

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

a) Credit risk

Trade and other receivables

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 85% of trade receivables are due from one distributor at June 30, 2018 (December 31, 2017 – 93% from one distributor) and all trade receivables at June 30, 2018 and December 31, 2017 are current. This main distributor is considered to have good credit quality and historically has had 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 $5,408,581 at June 30, 2018 (December 31, 2017 - $6,173,895) 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	829,570	-	-	-	829,570
Long-term debt	683,805	214,282	-	-	898,087
CAAP loan	83,884	167,767	83,884	-	335,535
Total	1,597,259	382,049	83,884	-	2,063,192

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%	+1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	991,459	9,915	(9,915)
Financial liabilities			
Accounts payable and accrued liabilities	197,422	(1,974)	1,974
Total increase (decrease)		7,941	(7,941)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial liabilities			
Long-term debt	124,133	(1,241)	1,241
Total (decrease) increase		(1,241)	1,241

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, 2018.

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 impairment of non-financial assets and goodwill, inventory valuation, amortization of property and equipment and intangible assets, the recognition and valuation of tax liabilities and tax assets, provisions, the assumptions used in determining share-based compensation, and the assumptions used to value royalty obligations. These estimates are based on historical experience and reflect certain assumptions about the future that we believe to be both reasonable and conservative. Actual results could differ from those estimates. Ceapro continually evaluates the estimates and assumptions.

f) Loss of key personnel

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

g) Interruption of raw material supply

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

h) Environmental issues

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

i) Regulatory compliance

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

j) Legal matters

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

k) Acquisitions

With our strategic growth plan to expand and transition into nutraceuticals and pharmaceuticals, some of this growth may occur through acquisitions. These transactions may involve acquisitions of entire companies and/or acquisitions of selected assets of companies. Potential difficulties relating to acquisitions include, integrating acquired operations, systems and businesses, retaining customer, supplier, employee, or other business relationships of acquired operations, and not achieving anticipated business volumes. The inability to realize the anticipated benefits of acquisitions could adversely affect our business and operating results.

l) Fair value and impairment

The Company relies on forecasts and estimates in its evaluation of the fair value of financial instruments and the recoverable amounts of non-financial assets including goodwill in relation to impairment testing. The accuracy of such forecasts are inherently vulnerable to assumptions related to the timing of future events, the size of anticipated markets, forecasted costs, and the expected growth of sales. The inability to support the carrying value of goodwill and intangible assets in periods subsequent to acquisitions could require write-downs that adversely affect our operating results.

Changes in accounting policies

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. A five-step model is used to account for revenue arising from contracts with customers. Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Incremental costs of obtaining a contract are paid over the life of the contract.

The Company has adopted IFRS 15, effective January 1, 2018, using the full retrospective transition method. The adoption of this standard does not have a material impact on the Company’s financial statements, as such it did not result in any adjustment in the amounts previously recognized in the consolidated financial statements.

The Company generates revenues from product sales. Revenue for the sale of product is recognized at the point in time when control or ownership of the product is transferred to the customer, generally when the products are shipped, and when collectability is probable. The adoption of IFRS 15 had no material impact on the timing or the amount of sales revenue recognized.

Revenue is measured net of returns, trade discounts and volume discounts.

The Company does not have any revenue contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As such, the Company does not adjust any of the transaction prices for the time value of money.

When an amount is received as an advance or a deposit from a customer, prior to the recognition of revenue, a contract liability results. These amounts were previously included in deferred revenue but are now classified as contract liabilities on the Consolidated Balance Sheet. The Company had no contract liabilities at December 31, 2017. During the six months ended June 30, 2018 the Company received $463,763 in advance for future sales orders from a distributor. This balance has been presented as contract liabilities on the Consolidated Balance Sheet at June 30, 2018.

Additional disclosures regarding the Company’s reported revenue from contracts with customers have been presented in note 17 to the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2018.

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.

The Company has adopted IFRS 9 retrospectively, effective January 1, 2018. The adoption of this standard does not have a material impact on the Company’s financial statements, as such it did not result in any adjustment in the amounts previously recognized in the consolidated financial statements.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company’s accounting policies related to financial liabilities.

IFRS 9 has eliminated the previous IAS 39 categories for held to maturity, loans and receivables and available for sale financial assets. A financial asset is now classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the new standard are never separated. Instead the hybrid financial instrument as a whole is assessed for classification. The Company's financial assets which consist of cash and cash equivalents and trade and other receivables are classified at amortized cost and are measured at amortized cost using the effective interest method.

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Company's accounts receivable are considered collectible within one year or less; therefore these financial assets are not considered to have a significant financing component and a lifetime expected credit loss (ECL) is measured at the date of initial recognition of the accounts receivable.

The Company's trade and other receivables are subject to the expected credit loss model under IFRS 9. The Company applies the simplified approach to providing for expected credit losses. The adoption of the ECL impairment model had a negligible impact on the carrying amounts of the Company's financial assets on the transition date given the receivables are all current and the minimal historical level of customer default.

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 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 for lessees 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 is currently assessing the extent of the impact of adopting IFRS 16 on these consolidated financial statements.

Results of Operations
Periods Ended June 30, 2018 and 2017

CONSOLIDATED INCOME STATEMENT

	Quarters Ended June 30,				Six Months Ended June 30,			
$000s except per share data	2018	%	2017	%	2018	%	2017	%
Total revenues	**2,731**	**100%**	**3,174**	**100%**	**5,001**	**100%**	**6,357**	**100%**
Cost of goods sold	1,178	43%	1,156	36%	2,346	47%	2,628	41%
Gross margin	**1,553**	**57%**	**2,018**	**64%**	**2,655**	**53%**	**3,729**	**59%**
Research and product development	659	24%	301	9%	998	20%	897	14%
General and administration	766	28%	687	22%	1,514	30%	1,526	24%
Sales and marketing	32	1%	5	0%	48	1%	9	0%
Finance costs	15	1%	21	1%	86	2%	100	2%
Income from operations	**81**	**3%**	**1,004**	**32%**	**9**	**0%**	**1,197**	**19%**
Other expenses	(283)	-10%	(247)	-8%	(569)	-11%	(428)	-7%
Income (loss) before tax	**(202)**	**-7%**	**757**	**24%**	**(560)**	**-11%**	**769**	**12%**
Income tax (expense) recovery	36	1%	(387)	-12%	99	2%	(381)	-6%
Net income (loss)	**(166)**	**-6%**	**370**	**12%**	**(461)**	**-9%**	**388**	**6%**
Basic net income (loss) per common share	(0.002)		0.005		(0.006)		0.005	
Diluted net income (loss) per common share	(0.002)		0.005		(0.006)		0.005	

The following sections discuss the results from operations.

Revenue

	Quarters Ended June 30,			Six Months Ended June 30,		
$000s	2018	2017	Change	2018	2017	Change
Total revenues	2,731	3,174	-14%	5,001	6,357	-21%

Total sales revenue for the second quarter ended June 30, 2018 amounted to $2,731,000 compared to $3,174,000 for the second quarter ended June 30, 2017, which represented a decrease of 14% or $443,000. Product sales volume for the second quarter ended June 30, 2018 was 5% lower than the comparative quarter. While sales of beta glucan have continued to improve over the comparative quarter, sales of avenanthramides were lower. The impact from a lower U.S. dollar relative to the Canadian dollar compared to the comparative quarter was not significant, negatively impacting revenue by approximately $43,000.

Revenue of $5,001,000 for the first six months of 2018 was 21% lower than the comparative period. Product sales volume was 15% lower than the comparative period for the same reasons as noted for the quarter. For the first six months of 2018 revenue was also impacted by a lower U.S. dollar relative to the Canadian dollar compared to the comparative period which negatively impacted revenue by approximately $103,000.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

$000s	Quarters Ended June 30, 2018	2017	Change	Six Months Ended June 30, 2018	2017	Change
Sales	2,731	3,174	-14%	5,001	6,357	-21%
Cost of goods sold	1,178	1,156	2%	2,346	2,628	-11%
Gross margin	1,553	2,018	-23%	2,655	3,729	-29%
Gross margin %	57%	64%		53%	59%	

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 2018, cost of goods sold was $1,178,000 which was just slightly higher than the comparative quarter representing an increase of 2%, however sales decreased by 14%, and the net result was a 23% decrease in gross margin of $465,000. The gross margin percentage decreased from 64% in the comparative quarter to 57% in the current quarter. While overhead expenses were consistent with the comparative quarter, the cost of materials used in production were higher primarily due to additional grain processing requirements. The lower gross margin and gross margin percentage during the current quarter were also negatively impacted by a difference in product sales mix from the comparative quarter. While the gross margin percentage in the second quarter of 2018 was lower than that of the second quarter in 2017, it reflected an improvement over the gross margin experienced in the first quarter of fiscal 2018.

During the first six months of fiscal 2018, revenue decreased by 21%, while the cost of goods sold only decreased by 11% or by $282,000. The cost of goods sold did not decrease as much as the decrease in revenue which has contributed to an overall decrease in the gross margin percentage. Fixed overhead costs were higher in the six month period due to an increase in salaries and wages relating to additional operators and staff hired to support the operation of both the existing and new production facility during the commissioning and validation phase and due to higher repairs and maintenance costs These increases were only partially offset by lower utilities expense and a lower expense from the amortization of manufacturing equipment. On a six month basis, the product sales mix did not have as significant an impact on the gross margin.

RESEARCH AND PRODUCT DEVELOPMENT

$000s	Quarters Ended June 30, 2018	2017	Change	Six Months Ended June 30, 2018	2017	Change
Salaries and benefits	229	155		370	315	
Regulatory and patents	112	8		143	118	
Other	318	138		485	464	
Total research and product development expenditures	659	301	119%	998	897	11%

During the quarter ended June 30, 2018, research and development expenses increased by 119% or $358,000. The increase is partially due to a significant expenditure on patent maintenance during the quarter, an increase in research and development salaries and an increase in other research and development costs.

The increase in other research and development expense for the quarter primarily related to the pilot clinical study for the development of beta glucan as a cholesterol reducer. The Company has continued to prepare for the upcoming trial and focused on the development of the pills to be used in the trial while it waits for the green light from Health Canada.

Research and development salaries and benefits were higher than the comparative quarter primarily due to receiving less grant funding in the quarter compared to the prior quarter.

Regulatory and patents expense will vary from period to period based on the timing of filings and maintenance payments. Because of timing differences, the current quarter is higher than the comparative quarter as a significant amount of maintenance costs were incurred in the second quarter of 2018 whereas in the comparative period they were incurred in the first quarter. For the six months ended June 30, 2018 the expense is comparable but slightly higher than the comparative period due to patent maintenance on increased patent applications for its enabling technologies.

For the six month period ending June 30, 2018, research and development expenses have increased by 11% or $101,000. The increase was due to overall higher patent maintenance, higher salaries and benefits due to receiving less grant funding and slightly higher expenditure in other projects. While expenditure on the pilot clinical study to develop beta glucan as a cholesterol reducer are significantly higher in the current period, they are offset by a large investment in a research program to study the bio activity of the Company's value driver active ingredients in the comparative period

Research and development expenses are expected to continue to increase during the remainder of 2018 which is in line with the Company's focus on investing in its various enabling technologies and research on product development and new applications for its value driving products.

GENERAL AND ADMINISTRATION

	Quarters Ended June			Six Months Ended June 30,		
$000s	2018	2017	Change	2018	2017	Change
Salaries and benefits	206	169		505	563	
Consulting	120	120		240	240	
Board of directors compensation	40	41		80	83	
Insurance	35	35		71	72	
Accounting and audit fees	50	31		76	64	
Rent	27	22		52	44	
Public company costs	121	124		172	209	
Travel	41	38		61	52	
Depreciation and amortization	55	31		110	67	
Legal	12	14		15	17	
Other	59	62		132	115	
Total general and administration expenses	766	687	11%	1,514	1,526	-1%

General and administration expense for the quarter ended June 30, 2018 increased by $79,000 or 11% from the comparative quarter. The increase was primarily due to increases in salaries and benefits expense, accounting and audit fees and depreciation and amortization. The increase in salaries is primarily a result of an increase in employees from the Juvente acquisition in Q4 of 2017 which was partially offset by a lower share based payment expense in the quarter compared to the comparative quarter of 2017. The increase in depreciation and amortization expense related to the amortization of intangible assets acquired with the acquisition of Juvente and accounting and audit fees increased from higher audit fees and additional tax fees.

For the six month period ended June 30, 2018 general and administration expense decreased by $12,000 or 1% from the comparative period. While salaries and benefits expense actually increased from the addition of employees from the Juvente acquisition, the share based payment expense related to restricted share units and stock options granted in January 2018 was approximately $224,000 lower than the share based payment expense related to stock options granted in January 2017, which resulted in an overall decrease in the salaries and benefits expense. The decrease in salaries and benefit expense was offset by increases in depreciation and amortization expense and accounting and audit fees for the same reasons as noted for the quarter. There were also noted increases in rent, travel and other costs which primarily related to the acquisition of Juvente. Offsetting these increases was a decrease in public company costs partially due to a decrease in communication costs related to investor materials and partially due to lower regulatory fees resulting from the Company's lower market capitalization.

SALES AND MARKETING

	Quarters Ended June 30,			Six Months Ended June 30,		
$000s	2018	2017	Change	2018	2017	Change
Courses, conferences & advertising	32	4		46	7	
Other	-	1		2	2	
Total sales and marketing	32	5	540%	48	9	433%

The Company's strategy throughout the first three quarters of 2017 was to sell mostly through a distribution network instead of selling directly to end-users and as a result sales and marketing expenses were negligible. On October 25, 2017, the Company acquired Juvente^{DC} Inc. to sell cosmeceutical products directly to high-end value customers and the sales and marketing expense now reflects the marketing and advertising expenses incurred to market the Company's new line of dermatology products.

FINANCE COSTS

	Quarters Ended June 30,			Six Months Ended June 30,		
$000s	2018	2017	Change	2018	2017	Change
Interest on long-term debt	2	6		5	15	
Transaction costs	4	5		8	9	
Royalties	-	-		55	55	
Accretion of CAAP loan	9	11		18	21	
	15	22	-32%	86	100	-14%

Finance costs decreased by 32% or $7,000 in the second quarter ended June 30, 2018 from $22,000 in 2017 to $15,000. The decrease is primarily attributable to the Company's declining long-term debt balance, where a larger portion of the monthly payments are being allocated to principal repayment and less to interest.

Finance costs for the six month period ended June 30, 2018 decreased by $14,000, from $100,000 in 2017 to $86,000, primarily due to the same factor that impacted the quarter.

OTHER EXPENSES

	Quarters Ended June 30,			Six Months Ended June 30,		
$000s	2018	2017	Change	2018	2017	Change
Foreign exchange loss	-	59		42	70	
Quality management system	159	41		251	81	
Other (income) expense	(14)	-		(27)	1	
Plant relocation costs	138	147		303	276	
	283	247	15%	569	428	33%

During the second quarter ended June 30, 2018, other expenses increased by $36,000 or 15% from $247,000 in 2017 to $283,000. The increase was primarily due to expenditures on the Company's project to implement an improved quality management system. This increase was offset by not incurring a foreign exchange loss in the second quarter of 2018 compared with a loss in the comparative quarter, slightly lower plant relocation costs in the current quarter and an increase in other income primarily from interest income.

During the six month period ended June 30, 2018, other expenses increased by $141,000 or 33% from $428,000 in 2017 to $569,000 in the current six month period. The increase was primarily due to expenditures on the Company's project to implement an improved quality management system and was also due to an increase in plant relocation costs over the comparative period. These increases were partially offset by incurring a lower foreign exchange loss in the current period and an increase in other income primarily from interest income.

The new quality management system is being designed to focus policies towards consistently meeting or exceeding customer requirements and is also aligned with the Company's strategic goal of transitioning to nutraceutical and pharmaceutical markets. The project commenced in the fourth quarter of fiscal 2016 and continued through the first two quarters of 2017. The project started back up again in Q1 of 2018 and has increased in scale in preparation for upcoming customer audits.

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. The increase during the six month period was primarily due to an overlapping rental charge from moving our warehouse closer to the new facility as well as additional storage and transportation costs as we continue to transition to the new manufacturing facility.

The Company's foreign exchange losses and gains are primarily due to the translation of US dollar denominated accounts receivable, accounts payable, and deferred revenue balances, and from the timing of the realization of these balances. Foreign exchange will fluctuate between the quarters due to fluctuations between the US dollar and the Canadian dollar. The foreign exchange gains and losses are also impacted by the translation of the Company's Euro denominated debt. During the quarter ended June 30, 2018, the Euro debt translation resulted in a $8,000 gain compared to a $21,000 loss in the comparative quarter. During the six months ended June 30, 2018, the Euro debt translation resulted in an $8,000 loss compared to a $24,000 loss in the comparative period.

DEPRECIATION AND AMORTIZATION EXPENSE

In the six month period ended June 30, 2018, the total depreciation and amortization expense of $149,000 (2017 - $175,000) was allocated as follows: $110,000 to general and administration expense (2017 - $69,000), $3,000 to inventory (2017 - $27,000), and $36,000 (2017 - $79,000) to cost of goods sold.

Depreciation expense is lower than the comparative period as the depreciable base of manufacturing equipment currently in use and assets used in the corporate head office is lower than the comparative period. This was partially offset by an increase in depreciation from the acquisition of equipment from the purchase of Juvente and an increase in amortization expense relating to the acquisition of intangible assets from the purchase of Juvente.

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	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues	2,731	2,270	2,969	3,600	3,174	3,183	2,425	3,018
Net income (loss)	(166)	(295)	(1,642)	296	370	18	126	645
Basic net income (loss) per common share	(0.002)	(0.004)	(0.022)	0.004	0.005	0.000	0.002	0.009
Diluted net income (loss) per common share	(0.002)	(0.004)	(0.022)	0.004	0.005	0.000	0.002	0.008

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

Net income in the first quarter of 2018 and 2017 include non-cash share-based payment accounting charges of $185,000 (2017 - $307,000) primarily relating to the granting of stock options and restricted share units in January 2018 and the granting of stock options in January 2017. These accounting charges are considerably higher than in any of the comparable quarters presented as convertible securities granted during these periods were not as significant.

Net loss in the fourth quarter of 2017 includes the recognition of royalty provisions in the amount of $2,154,000 resulting from judgements received subsequent to the year-end on statements of claims against the Company and its wholly-owned subsidiary Ceapro Technology Inc. Please refer to the "Commitments and Contingencies" section for additional information.

Liquidity and Capital Resources

CAPITAL EMPLOYED

$000s	June 30, 2018	December 31, 2017
Non-current assets	19,303	18,811
Current assets	8,084	8,997
Current liabilities	(4,193)	(4,067)
Total assets less current liabilities	23,194	23,741
Non-current liabilities	879	1,197
Shareholders' equity	22,315	22,544
Total capital employed	23,194	23,741

Non-current assets increased by $492,000 primarily due to the acquisition of $638,000 of property and equipment net of grants offset by a depreciation provision of $118,000. The increase was also due to an increase in deposits of $3,000 offset by an amortization provision on intangible assets of $30,000 and on licenses of $1,000.

Current assets decreased by $913,000. Inventories decreased by $204,000 and cash decreased by $765,000 primarily due to the acquisition of property and equipment and the repayment of long-term debt. These decreases were offset by an increase in trade and other receivables of $44,000 and prepaid expenses of $12,000.

Current liabilities totaling $4,193,000 increased by the net amount of $126,000 primarily due to the recognition of $464,000 of contract liabilities, offset by a decrease in trade payables of $150,000 and a decrease in the current portion of long-term debt of $193,000. The increase was also due to an increase in the current portion of the CAAP loan of $5,000.

Non-current liabilities totaling $879,000 decreased by the net amount of $318,000 primarily due to the repayment of and reclassification to current portion of long-term debt of $233,000 and by the recovery of $99,000 of deferred tax assets which resulted in a net deferred tax liability of $506,000 at June 30, 2018. These decreases were offset by an increase in the discounted CAAP loan in the amount of $14,000.

Equity of $22,315,000 at June 30, 2018 decreased by $229,000 from equity of $22,544,000 at December 31, 2017 due to the recognition of a net loss of $461,000 for the six month period ended June 30, 2018 which was offset by the recognition of share-based payment compensation of $232,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended June 30, 2018 and 2017.

	Quarters Ended June 30,		Six Months Ended June 30,	
$000s	2018	2017	2018	2017
Sources of funds:				
Funds generated from operations adjusted for non-cash items	-	975	-	1,418
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	-	87	-	-
Grant used for capital assets	58	370	124	393
Share issuance	-	75	-	488
Changes in non-cash working capital items relating to operating activities	97	-	547	-
	155	1,507	671	2,299
Uses of funds:				
Funds used in operations adjusted for non-cash items	(74)	-	(140)	-
Purchase of property and equipment	(412)	(573)	(737)	(1,181)
Purchase of leasehold improvements	-	(599)	(4)	(765)
Deposits relating to investing activities	-	-	-	(421)
Changes in non-cash working capital items relating to operating activities	-	(810)	-	(1,413)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	(20)	-	(88)	(42)
Interest paid	(12)	(22)	(26)	(49)
Repayment of long-term debt	(214)	(252)	(441)	(499)
	(732)	(2,256)	(1,436)	(4,370)
Net change in cash flows	(577)	(749)	(765)	(2,071)

Net change in cash flow was a decrease of $765,000 during the six month period ended June 30, 2018 in comparison with a decrease of $2,071,000 for the same period in 2017. Taking into account changes in non-cash working capital items relating to operations, the first six months of 2018 generated approximately $337,000 more cash from operations over the comparative period. In the comparative six month period the Company incurred significantly higher expenditures on property and equipment and leaseholds compared to the current period. These comparative expenditures were offset partially from higher grants received on the expenditures and from the Company generating approximately $488,000 in cash from the issuance of shares.

In the first six months of 2018, the property and equipment expenditures related primarily to the commissioning and validation of the extraction/fractionation processes, and partially to the continued development of a pilot scale skid for the Company's PGX Technology for which grant funding was recognized. In the first six months of 2017 the property and equipment expenditures related to the same projects but were higher. In the first six months of 2017 the Company also made an additional deposit on the purchase of an ethanol recovery system and incurred leasehold improvement expenditures relating to design work for the construction necessary to install and house the new ethanol recovery system. The purchase of the ethanol recovery system was completed in Q4 of 2017. The related leasehold improvements and installation of the equipment is not planned until 2019 as the Company's priority of efforts will first be directed to satisfying upcoming customer audits on the new facility.

The Company has a positive working capital balance of $3,890,651 at June 30, 2018. Based on current plans, the Company estimates that it has sufficient capital necessary to complete final commissioning activities and validation trials at the newly completed manufacturing facility. Revenues in the current period are lower than the prior period and current sales forecasts are not anticipated to be as high as previously expected. The Company has already implemented measures to reverse the revenue trend and the Company remains in a good positive working capital balance position, however, the Company has several ongoing research and development projects and planned upcoming clinical trials. Management will prioritize expenditures on those projects that are in line with our stated objectives to develop new product applications and transition to the nutraceutical sector which we consider will provide the most beneficial outcome and value to our shareholders.

The Company also estimates that the cash flows generated by its existing operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, maintain capital investment, and service debt needs.

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

Total common shares issued and outstanding as at August 27, 2018 were 77,045,008 (August 17, 2017 – 75,350,225). In addition, 2,498,668 stock options as at August 27, 2018 (August 17, 2017 – 2,495,302 stock options, 4,244,480 warrants, and 660,377 broker unit warrants) were outstanding that are potentially convertible into an equal number of common shares at various prices.

GRANT FUNDING

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

b) During the year ended December 31, 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, 2017, the Company received a final payment of $19,800 (2016 - $89,100) and an amount of $19,800 (2016 - $89,100) was expended on the research project. The project was completed at December 31, 2017.

c) During the year ended December 31, 2015, the Company entered into a contribution agreement with AI-Bio Solutions for a non-repayable funding contribution of $800,000 to implement the scale-up of the Company's Enabling Pressurized Gas eXpanded (PGX) Technology. During the year ended December 31, 2017, the Company recognized $557,908 on eligible equipment and $85,200 on eligible expenses. At December 31, 2017, the Company had expended $60,680 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the six months ended June 30, 2018, the Company recognized $87,027 on eligible equipment and $52,293 on eligible expenses and received an additional $100,000. At June 30, 2018, the Company has expended $100,000 in excess of grant funds received and has recognized a receivable for this balance. The project has been completed at June 30, 2018 and the final payment of $100,000 was received in July 2018.

d) 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, 2017, IRAP and the Company agreed to amend the contribution agreement to increase the non-repayable funding up to a maximum of $400,000. During the year ended December 31, 2017, the Company received or recorded as a receivable $82,816 (2016 - $261,813) which has been recorded as a reduction of research and project development expenses. The project was completed at December 31, 2017.

e) During the year ended December 31, 2016, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $33,000 for certain research activities. During the year ended December 31, 2017, the Company received $9,623 (2016 - $7,594) which has been recorded as a reduction of research and development activities. The project was completed at December 31, 2017.

f) During the year ended December 31, 2016, the Company entered into a contribution agreement with the German-Canadian Centre for Innovation and Research to provide a non-repayable funding contribution of up to $247,856 for the advancement of the Company's PGX Technology. During the year ended December 31, 2016, the Company received $50,000 and recognized $2,625 as a reduction of research and development expenditures and $19,038 as a reduction of capital expenditures. The balance was recorded as deferred revenue at December 31, 2016. During the year ended December 31, 2017, the Company received an additional $64,196 and recognized $57,405 as a reduction of capital expenditures and $66,114 as a reduction of research and development expenditures. At December 31, 2017, the Company expended $30,986 on eligible expenditures in excess of grant funds received and recognized a receivable for this balance. During the six months ended June 30, 2018 the Company received the remaining $133,660 of contributions and recognized $36,494 as a reduction of capital expenditures and $66,180 as a reduction of research and development expenditures. There are no further contributions to receive under this agreement and the project is expected to be completed in the third quarter of 2018.

Related Party Transactions

During the six month period ended June 30, 2018, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $412,000 (2017 – $402,000) and share-based payments expense for key management personnel was $151,000 (2017 - $387,000).

The amount payable to directors at June 30, 2018 was $40,000 (2017 - $40,000).

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. ("CVP") were served with a statement of claim from AVAC Ltd. alleging damages of $724,500 pursuant to a product development agreement. The Company and CVP 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 were submitted to the presiding judge.

On January 19, 2018, the judge issued his written decision with respect to the claim. The judge awarded damages against Ceapro Inc. and CVP in the amount of twice its investment of $724,500 less royalties paid, which at June 30, 2018 are $2,364. Pre-judgement interest was also awarded on the judgement. With the rendering of the judgement, there is no longer a royalty obligation pursuant to the development agreement. The Company has recorded a current provision of $778, 636 at June 30, 2018.

On August 24, 2018 the Company entered into a Settlement Agreement with AVAC Ltd. to settle this provision in the entirety. Please see additional information in (b) below.

(b) During the year ended December 31, 2012, although the product development agreements were only entered into by the Company's wholly-owned subsidiary, Ceapro Technology Inc. ("CTI"), AVAC Ltd. served a statement of claim against both the Company and CTI, alleging damages of $1,470,000 pursuant to two product development agreements. The Company and CTI 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 were submitted to the presiding judge.

On January 19, 2018, the judge issued his written decision with respect to the claim. The judge awarded damages against CTI in the amount of $1,215,000 plus pre-judgment interest. However, the judge did not grant judgement against the Company with respect to the CTI claim. With the rendering of the judgement, there is no longer a royalty obligation pursuant to the two development agreements. CTI has recorded a current provision of $1,375,000 at June 30, 2018 with respect to these claims which, pursuant to financial reporting requirements, the Company is obligated to consolidate into its financial statements.

On August 24, 2018, the Company entered into a Settlement Agreement with AVAC Ltd. in respect of previously recognized royalty provisions aggregating $2,153,636 as described above. Pursuant to the terms of the Settlement Agreement the royalty provisions are to be satisfied by a cash payment in the amount of $780,741 and by the issuance of 1,288,149 common shares of the Company each with a deemed issuance price of approximately $0.50 per share aggregating $650,000. The share for debt conversion has been conditionally accepted by the TSX Venture Exchange, and the shares issued will be subject to a four month hold period. As a result of the settlement, the Company will recognize a gain on the settlement of the royalty provisions of $722,895 in the consolidated statement of income (loss) in the third quarter of 2018.

(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

While we will continue to rely on our existing base business model in cosmeceuticals through a distribution network, we will accelerate the diversification of this model by investing in marketing and sales to get closer to the customer through the direct offering of both active ingredients and the Juvente line of top class cosmeceutical products. We will also further invest in clinical trials for new product applications for our value drivers, avenanthramides and beta glucan, to allow the expansion of Ceapro to its next phase of growth into the profitable nutraceutical sector.

Positive results recently announced with avenanthramides as an anti-inflammation product and with beta glucan as part of a new water-soluble chemical entity (Beta Gucan/CoQ10) will facilitate this transition.

The successful production of large scale powder formulation of Beta Glucan through the use of our PGX pilot plant unit in the new Edmonton facility is an important milestone for our ongoing business development activities. From a corporate perspective, we remain vigilant for potential accretive acquisitions and we continue to pursue assessing the potential to uplist Ceapro on a stock exchange outside of Canada.

Ceapro has all the key ingredients in place for success.

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, 2018

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, 2018	December 31, 2017
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	5,408,581	6,173,895
Trade receivables	1,306,368	1,246,413
Other receivables	197,543	213,512
Inventories (note 5)	881,286	1,085,388
Prepaid expenses and deposits	289,652	277,600
	8,083,430	8,996,808
Non-Current Assets		
Investment tax credits receivable	607,700	607,700
Deposits	90,925	87,816
Licences (note 6)	25,921	27,403
Property and equipment (note 7)	17,899,395	17,379,839
Intangible assets (note 8)	460,133	489,733
Goodwill (note 9)	218,606	218,606
	19,302,680	18,811,097
TOTAL ASSETS	27,386,110	27,807,905
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	829,570	979,626
Current portion of long-term debt (note 10)	667,952	860,871
Royalty provision - Ceapro Inc. (note 11 (a))	778,636	778,636
Royalty provision - Ceapro Technology Inc. (note 11 (b))	1,375,000	1,375,000
Contract liabilities	463,763	-
Current portion of CAAP loan (note 13)	77,858	72,942
	4,192,779	4,067,075
Non-Current Liabilities		
Long-term debt (note 10)	198,115	430,622
CAAP loan (note 13)	174,644	161,424
Deferred tax liabilities	505,835	604,835
	878,594	1,196,881
TOTAL LIABILITIES	5,071,373	5,263,956
Equity		
Share capital (note 12 (b))	15,670,522	15,565,522
Contributed surplus (note 12 (f))	4,396,543	4,269,855
Retained earnings	2,247,672	2,708,572
	22,314,737	22,543,949
TOTAL LIABILITIES AND EQUITY	27,386,110	27,807,905

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 (Loss) and Comprehensive Income (Loss)
Unaudited

	Quarters Ended June 30, 2018	Quarters Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	$	$	$	$
Revenue (note 17)	2,731,375	3,173,225	5,000,955	6,356,735
Cost of goods sold	1,177,636	1,155,231	2,345,930	2,627,555
Gross margin	1,553,739	2,017,994	2,655,025	3,729,180
Research and product development	659,226	301,138	998,039	897,162
General and administration	765,984	686,686	1,513,720	1,526,026
Sales and marketing	31,598	4,727	47,621	9,017
Finance costs (note 16)	15,481	21,711	86,384	100,176
Income from operations	81,450	1,003,732	9,261	1,196,799
Other expenses (note 15)	(282,743)	(246,797)	(569,161)	(427,840)
Income (loss) before tax	(201,293)	756,935	(559,900)	768,959
Income taxes				
Current tax recovery	-	-	-	9,344
Deferred tax benefit (expense)	35,600	(386,513)	99,000	(390,113)
Income tax benefit (expense)	35,600	(386,513)	99,000	(380,769)
Total comprehensive income (loss) for the period	(165,693)	370,422	(460,900)	388,190
Net income (loss) per common share (note 22):				
Basic	(0.00)	0.00	(0.01)	0.01
Diluted	(0.00)	0.00	(0.01)	0.01
Weighted average number of common shares outstanding (note 22):				
Basic	75,756,859	75,344,730	75,734,815	75,256,385
Diluted	75,756,859	76,760,043	75,734,815	76,821,870

See accompanying notes

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

	Share capital $	Contributed surplus $	Retained earnings $	Total equity $
Balance December 31, 2017	15,565,522	4,269,855	2,708,572	22,543,949
Share-based payments (note 12 (d) & (e))	-	231,688	-	231,688
Restricted share units vested (note 12 (e))	105,000	(105,000)	-	-
Net loss for the period	-	-	(460,900)	(460,900)
Balance June 30, 2018	15,670,522	4,396,543	2,247,672	22,314,737
Balance December 31, 2016	14,859,136	3,874,725	3,666,847	22,400,708
Share-based payments (note 12 (d))	-	395,925	-	395,925
Stock options exercised	72,520	(34,200)	-	38,320
Warrants exercised	584,922	(134,922)	-	450,000
Net income for the period	-	-	388,190	388,190
Balance June 30, 2017	15,516,578	4,101,528	4,055,037	23,673,143

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

Six Months Ended June 30,	2018 $	2017 $
OPERATING ACTIVITIES		
Net income (loss) for the period	(460,900)	388,190
Adjustments for items not involving cash		
Finance costs	5,407	14,937
Transaction costs	7,841	9,022
Depreciation and amortization	149,382	174,567
Unrealized foreign exchange loss on long-term debt	7,747	23,911
Accretion	18,136	21,217
Deferred tax expense	(99,000)	390,113
Share-based payments	231,688	395,925
Net income (loss) for the period adjusted for non-cash items	(139,699)	1,417,882
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(59,955)	(852,429)
Other receivables	15,969	35,703
Inventories	204,102	(184,803)
Prepaid expenses and deposits	(15,161)	67,912
Contract liabilities	463,763	(301,598)
Accounts payable and accrued liabilities relating to operating activities	(62,127)	(177,525)
Total changes in non-cash working capital items	546,591	(1,412,740)
Net income (loss) for the period adjusted for non-cash and working capital items	406,892	5,142
Interest paid	(26,103)	(49,245)
CASH GENERATED FROM (USED IN) OPERATIONS	380,789	(44,103)
INVESTING ACTIVITIES		
Purchase of property and equipment	(736,859)	(1,181,387)
Purchase of leasehold improvements	(3,822)	(764,395)
Deposits relating to investment in equipment	-	(421,217)
Accounts payable and accrued liabilities relating to investing activities	(87,929)	(41,935)
CASH USED BY INVESTING ACTIVITIES	(828,610)	(2,408,934)
FINANCING ACTIVITIES		
Stock options exercised	-	38,320
Warrants exercised	-	450,000
Repayment of long-term debt	(441,014)	(499,177)
Grant used for purchase of leaseholds, property and equipment	123,521	393,230
CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(317,493)	382,373
Decrease in cash and cash equivalents	(765,314)	(2,070,664)
Cash and cash equivalents at beginning of the period	6,173,895	9,150,035
Cash and cash equivalents at end of the period	5,408,581	7,079,371

See accompanying notes

Cash and cash equivalents are comprised of $5,388,260 (2017 - $6,884,517) on deposit with financial institutions, $NIL (2017 - $188,016) restricted cash on deposit with financial institutions, and $6,838 (2017 - $6,838) held in money market mutual funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. NATURE OF BUSINESS OPERATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of consolidated financial statements, including IFRS 34, "Interim Financial Reporting". The accounting principles and methods of computation adopted in these financial statements are the same as those of the annual financial statements for the year ended December 31, 2017, except as noted below.

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, 2017.

Effective January 1, 2018 the Company has adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers". The impact of the adoption of these standards are disclosed in note 4 below.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on August 27, 2018.

b) Basis for presentation

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., Ceapro USA Inc., and Juvente^{DC} Inc. ("Juvente"). Juvente was acquired on October 25, 2017.

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

3. NEW STANDARDS AND INTERPRETATIONS 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 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 for lessees 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 is currently assessing the extent of the impact of adopting IFRS 16 on these consolidated financial statements.

4. CHANGES IN ACCOUNTING POLICIES

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. A five-step model is used to account for revenue arising from contracts with customers. Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Incremental costs of obtaining a contract are paid over the life of the contract.

The Company has adopted IFRS 15, effective January 1, 2018, using the full retrospective transition method. The adoption of this standard does not have a material impact on the Company's financial statements, as such it did not result in any adjustment in the amounts previously recognized in the consolidated financial statements.

The Company generates revenues from product sales. Revenue for the sale of product is recognized at the point in time when control or ownership of the product is transferred to the customer, generally when the products are shipped, and when collectability is probable. The adoption of IFRS 15 had no material impact on the timing or the amount of sales revenue recognized.

Revenue is measured net of returns, trade discounts and volume discounts.

The Company does not have any revenue contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As such, the Company does not adjust any of the transaction prices for the time value of money.

When an amount is received as an advance or a deposit from a customer, prior to the recognition of revenue, a contract liability results. These amounts were previously included in deferred revenue but are now classified as contract liabilities on the Consolidated Balance Sheet. The Company had no contract liabilities at December 31, 2017. During the six months ended June 30, 2018 the Company received $463,763 in advance for future sales orders from a distributor. This balance has been presented as contract liabilities on the Consolidated Balance Sheet at June 30, 2018.

Additional disclosures regarding the Company's reported revenue from contracts with customers have been presented in note 17.

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.

The Company has adopted IFRS 9 retrospectively, effective January 1, 2018. The adoption of this standard does not have a material impact on the Company's financial statements, as such it did not result in any adjustment in the amounts previously recognized in the consolidated financial statements.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

IFRS 9 has eliminated the previous IAS 39 categories for held to maturity, loans and receivables and available for sale financial assets. A financial asset is now classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the new standard are never separated. Instead the hybrid financial instrument as a whole is assessed for classification. The Company's financial assets which consist of cash and cash equivalents and trade and other receivables are classified at amortized cost and are measured at amortized cost using the effective interest method.

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Company's accounts receivable are considered collectible within one year or less; therefore these financial assets are not considered to have a significant financing component and a lifetime expected credit loss (ECL) is measured at the date of initial recognition of the accounts receivable.

The Company's trade and other receivables are subject to the expected credit loss model under IFRS 9. The Company applies the simplified approach to providing for expected credit losses. The adoption of the ECL impairment model had a negligible impact on the carrying amounts of the Company's financial assets on the transition date given the receivables are all current and the minimal historical level of customer default.

5. INVENTORIES

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

	June 30, 2018 $	December 31, 2017 $
Raw materials	698,705	839,734
Work in progress	25,687	65,992
Finished goods	156,894	179,662
	881,286	1,085,388

Inventories expensed to cost of goods sold during the six month period ended June 30, 2018 are $2,263,062 (June 30, 2017 - $2,552,673).

6. 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 19 (b)).

During the year ended December 31, 2012, the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and commenced amortizing the licence over 15 years, in April 2012. Amortization of $1,482 has been included in general and administration for the six month period ended June 30, 2018 (June 30, 2017 - $1,481) (see note 19 (a)).

Cost of licences	$
Balance - December 31, 2017	44,439
Additions	-
Balance - June 30, 2018	44,439
Accumulated amortization	
Balance - December 31, 2017	17,036
Amortization	1,482
Balance - June 30, 2018	18,518
Net book value	
Balance - June 30, 2018	25,921
Balance - December 31, 2017	27,403

7. PROPERTY AND EQUIPMENT

	Equipment not available for use	Manufacturing Equipment	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Cost	$	$	$	$	$	$
December 31, 2017	7,443,893	4,278,409	308,612	430,141	8,721,316	21,182,371
Additions	610,512	120,999	10,607	15,437	3,822	761,377
Cost reduced by grant	(87,027)	(36,494)	-	-	-	(123,521)
Disposal	-	-	-	-	-	-
June 30, 2018	7,967,378	4,362,914	319,219	445,578	8,725,138	21,820,227
Accumulated Depreciation						
December 31, 2017	-	2,966,715	187,251	360,276	288,290	3,802,532
Additions	-	72,658	13,153	11,522	20,967	118,300
Disposal	-	-	-	-	-	-
June 30, 2018	-	3,039,373	200,404	371,798	309,257	3,920,832
Carrying Value						
June 30, 2018	7,967,378	1,323,541	118,815	73,780	8,415,881	17,899,395
December 31, 2017	7,443,893	1,311,694	121,361	69,865	8,433,026	17,379,839

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold	Inventory	General and administration	Total
	$	$	$	$
Six Months Ended June 30, 2018	36,414	2,492	79,394	118,300
Six Months Ended June 30, 2017	78,872	27,055	67,159	173,086

The carrying value of the leasehold improvements and equipment not available for use represent the accumulated expenditures incurred on the construction of a new manufacturing facility, net of government funding received and amortization taken to date on leasehold improvements of $628,471 currently in use. At June 30, 2018, construction of the extraction/fractionation area of the facility is complete. Amortization of this area has not commenced since it is still in the commissioning phase.

Included in the additions for equipment not available for use are capitalized borrowing costs of $20,696 and capitalized employee salaries and benefits of $155,943 arising directly from the installation and related construction and commissioning of the new manufacturing equipment and production process. The borrowing costs have been capitalized at the rates of the specific borrowings ranging between 2.85% and 3.91%.

8. INTANGIBLE ASSETS

	Formulations	Brand	Website	Total
Cost	$	$	$	$
December 31, 2017	285,000	175,000	39,600	499,600
Additions	-	-	-	-
Disposals	-	-	-	-
June 30, 2018	285,000	175,000	39,600	499,600
Accumulated Amortization				
December 31, 2017	4,750	2,917	2,200	9,867
Additions	14,250	8,750	6,600	29,600
Impairment losses	-	-	-	-
June 30, 2018	19,000	11,667	8,800	39,467
Net Book Value				
June 30, 2018	266,000	163,333	30,800	460,133
December 31, 2017	280,250	172,083	37,400	489,733

The Company's intangible assets consist of identifiable intangible assets acquired in a business combination of Juvente^{DC} Inc. on October 25, 2017. Amortization of $29,600 (2017 – $NIL) has been included in general and administration expense.

9. GOODWILL

	June 30 2018 $	December 31, 2017 $
Balance at beginning of the period	218,606	-
Juvente acquisition	-	218,606
Balance at end of the period	218,606	218,606

Goodwill of $218,606 arose from the acquisition of Juvente^{DC} Inc. and has been allocated to that cash generating unit.

10. LONG-TERM DEBT

	June 30, 2018 $	December 31, 2017 $
Loan payable secured by a general security agreement, due January, 2018 (a).	-	14,835
Loan payable secured by certain intellectual property, due January, 2019 (b).	190,668	344,546
Loan payable secured by a general security agreement, due April, 2019 (c).	291,485	459,973
Loan payable secured by a forklift, due June, 2018 (d).	-	5,803
Loan payable secured by a general security agreement, due July, 2020 (e).	397,050	487,313
Transaction costs	(13,136)	(20,977)
	866,067	1,291,493
Less current portion	667,952	860,871
	198,115	430,622

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

Six Months Ended June 30, 2018	5,407
Six Months Ended June 30, 2017	14,937

(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 has been fully repaid at June 30, 2018.

(b) During the year ended December 31, 2013, the Company entered into a loan agreement with its main distribution partner 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, 2018, the loan balance was 124,133 (December 31, 2017 – 228,904) 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, 2018, the monthly payment is $27,497 (December 31, 2017 - $26,946) 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 10(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 has been fully repaid at June 30, 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 10(b).

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

11. ROYALTY PROVISION

a) In the year ended December 31, 2005, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. (CVP), received a commitment for financial assistance totaling $362,250 for product innovation development in the area of Veterinary Therapeutics and Active Ingredients. The Company and CVP were obligated to pay a 2.5% royalty to a maximum of $75,000 per quarter (to a maximum of two times the financial assistance received or $724,500) on sales generated from products developed using these funds. The portion of the obligation accrued and paid at March 31, 2018 was $2,364 (December 31, 2017 - $2,364).

During the year ended December 31, 2011, the Company and CVP were served with a statement of claim from AVAC Ltd. alleging damages of $724,500 pursuant to the product development agreement. The Company and CVP 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 were submitted to the presiding judge.

On January 19, 2018, the judge issued his written decision with respect to the claim. The judge awarded damages against Ceapro Inc. and CVP in the amount of twice its investment of $724,500 less royalties paid, which at June 30, 2018 is $2,364. Pre-judgement interest was also awarded on the judgement. With the rendering of the judgement, there is no longer a royalty obligation pursuant to the development agreement. The Company has recorded a current provision of $778,636 at June 30, 2018 (December 31, 2017 - $778,636).

On August 24, 2018, Company entered into a settlement agreement with AVAC Ltd. to settle this royalty provision in the entirety. Please see note 23.

b) In the year ended December 31, 2004, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling $250,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. $225,000 of this commitment was received and the remaining $25,000 was decommitted. CTI was obligated to pay a royalty (to a maximum of two times the financial assistance received) on sales generated from CeaProve® on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. No royalties have been paid or accrued during the current or prior periods.

In the year ended December 31, 2005, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling $800,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. $510,000 of this commitment was received and the remaining $290,000 was decommitted. CTI is obligated to pay a royalty (to a maximum of one and a half times the financial assistance received or $765,000) on sales of CeaProve® on the following basis: 0% of net sales and net sub-licensing revenues earned until royalty payments have been fully satisfied under the 2004 investment agreement

and 5% thereafter until repaid to a maximum of $125,000 per quarter. No royalties have been incurred during the current or prior periods.

During the year ended December 31, 2012, although the product development agreements were only entered into by CTI, AVAC Ltd. served a statement of claim against both the Company and its wholly-owned subsidiary, CTI, alleging damages of $1,470,000 pursuant to the two product development agreements. The Company and CTI 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 were submitted to the presiding judge.

On January 19, 2018, the judge issued his written decision with respect to the claim. The judge awarded damages against CTI in the amount $1,215,000 plus pre-judgement interest. However, the judge did not grant judgement against the Company with respect to the CTI claims. With the rendering of the judgement, there is no longer a royalty obligation pursuant to the two development agreements. CTI has recorded a current provision of $1,375,000 at June 30, 2018 (December 31, 2017 - $1,375,000) with respect to these claims which, pursuant to financial reporting requirements, the Company is obligated to consolidate into these financial statements.

On August 24, 2018, Company entered into a settlement agreement with AVAC Ltd. to settle this royalty provision in the entirety. Please see note 23.

12. SHARE CAPITAL

a. Authorized

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

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

b. Issued - Class A common shares

	Six Months Ended June 30, 2018		Year Ended December 31, 2017	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance at beginning of the period	75,546,859	15,565,522	74,872,225	14,859,136
Stock options exercised	-	-	374,634	121,464
Warrants exercised	-	-	300,000	584,922
Restricted share units vested	210,000	105,000	-	-
Balance at end of the period	75,756,859	15,670,522	75,546,859	15,565,522

In January 2018, the Company issued 210,000 common shares on the vesting and conversion of restricted share units (see note 12 (e)). This non-cash transaction has been excluded from the Statement of Cash Flows.

c. Warrants

The following table summarizes the continuity of warrants:

	Six Months Ended June 30, 2018		Year Ended December 31, 2017	
	Number of Warrants	Weighted Average Exercise Price $	Number of Warrants	Weighted Average Exercise Price $
Balance at beginning of the period	4,904,857	1.44	5,204,857	1.44
Exercised	-	-	(300,000)	1.50
Balance at end of period	4,904,857	1.44	4,904,857	1.44

The following table summarizes information about warrants outstanding:

Exercise Price $	Expiry Date	June 30, 2018 Number of Warrants	December 31, 2017 Number of Warrants
1.50	July 8, 2018	2,214,296	2,214,296
1.50	July 13, 2018	2,030,184	2,030,184
1.06	July 8, 2018	374,401	374,401
1.06	July 13, 2018	285,976	285,976
		4,904,857	4,904,857

d. Stock Option Share-Based Payment Plan

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

The Company 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, 2018, the Company granted 210,000 (June 30, 2017 – 410,000) 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 2018 was 2.05% (2017 – 1.71%), the weighted average expected volatility was 117% (2017 - 118%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2017 – 10 years), the forfeiture rate was 0% (2017 - 0%), the weighted average share price was $0.50 (2017 – $1.74), the weighted average exercise price was $0.50 (2017 – $1.74), and the expected dividends were nil (2017 - nil). The weighted average grant date fair value of options granted in the six months ended June 30, 2018 was $0.47 (2017 - $1.64) per option.

The share-based payments expense recorded during the current period relating to options granted in 2018 and 2017 was $126,688 (during 2017 relating to options granted in 2017, 2016, and 2015 - $395,925).

A summary of the status of the Company's stock options at June 30, 2018 and December 31, 2017 and changes during the periods ended on those dates is as follows:

	Six Months Ended June 30, 2018		Year Ended December 31, 2017	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the period	2,388,668	0.63	2,263,302	0.36
Granted	210,000	0.50	500,000	1.53
Exercised	-	-	(374,634)	0.17
Expired	(100,000)	0.44	-	-
Outstanding at end of period	2,498,668	0.63	2,388,668	0.63
Exercisable at end of period	2,162,000	0.57	2,055,334	0.49

Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	June 30, 2018 Number of Options	December 31, 2017 Number of Options
0.47	0.50	2028	9.5	210,000	-
0.56	0.59	2027	9.3	90,000	90,000
1.22	1.30	2027	8.8	10,000	10,000
1.65	1.75	2027	8.5	400,000	400,000
0.25	0.27	2025	7.0	3,334	3,334
0.34	0.36	2025	6.8	150,000	150,000
0.47	0.50	2025	6.6	100,000	100,000
0.60	0.64	2025	6.5	765,334	765,334
0.37	0.27	2024	6.4	150,000	150,000
0.13	0.14	2024	5.9	25,000	25,000
0.08	0.10	2024	5.5	300,000	300,000
0.05	0.10	2023	4.5	295,000	295,000
0.22	0.44	2018	-	-	100,000
			6.9	2,498,668	2,388,668

e. Restricted Share Unit Share-Based Payment Plan

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

During the six months ended June 30, 2018, the Company granted 210,000 RSU's to employees and officers. The fair market value of each RSU granted was measured at $0.50, based on the quoted closing price of the Company's stock on the trading day immediately preceding the date of grant. The RSU's vested immediately and were converted to common shares during the period.

The share-based payments expense recorded during the current period relating to the granting of these RSU's was $105,000.

f. Contributed surplus

	Six Months Ended June 30, 2018 $	Year Ended December 31, 2017 $
Balance at beginning of the period	4,269,855	3,874,725
Share-based payments (note 12 (d) & (e))	231,688	587,484
Restricted share units vested	(105,000)	-
Stock options exercised	-	(57,432)
Warrants exercised	-	(134,922)
Balance at end of the period	4,396,543	4,269,855

13. CAAP LOAN

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

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

The balance of repayable contribution is derived as follows:

	Six Months Ended June 30, 2018 $	Year Ended December 31, 2017 $
Opening balance	234,366	274,175
Repayment	-	(83,884)
Accretion of CAAP loan	18,136	44,075
	252,502	234,366
Less current portion	77,858	72,942
	174,644	161,424

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

14. 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,	2018 $	2017 $
Key management salaries, short-term benefits, consulting fees, and director fees	412,334	402,491
Key management personnel share-based payments	150,982	387,476
Amount payable to directors	40,186	40,162

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.

15. OTHER EXPENSES

	Quarters Ended June 30,		Six Months Ended June 30,	
	2018 $	2017 $	2018 $	2017 $
Foreign exchange loss	349	58,894	42,279	69,919
Other (income) expense	(13,768)	(43)	(26,943)	843
Quality management system	158,651	40,931	250,910	81,110
Plant relocation costs	137,511	147,015	302,915	275,968
	282,743	246,797	569,161	427,840

16. FINANCE COSTS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2018 $	2017 $	2018 $	2017 $
Interest on long-term debt	2,323	6,394	5,407	14,937
Transaction costs	3,921	4,511	7,841	9,022
Royalties	-	-	55,000	55,000
Accretion of CAAP loan	9,237	10,806	18,136	21,217
	15,481	21,711	86,384	100,176

17. DISAGGREGATION OF REVENUE

The Company's operations and its revenue stream are the same as those described in the Company's consolidated financial statements as at and for the year ended December 31, 2017 and in note 4 above.

As disclosed in note 4, the adoption of IFRS 15 "Revenue from Contracts with Customers" at January 1, 2018 did not have a material impact on the Company's condensed consolidated interim financial statements.

The Company's revenue is derived from contracts with customers and is all recognized at the point in time when the customer obtains control of the product. The Company does not incur material costs to obtain contracts with customers.

The Company only has one reportable operating segment and revenue stream, being the operations relating to 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 geographical market is as follows:

	Quarters Ended June 30,		Six Month Ended June 30,	
	2018	2017	2018	2017
	$	$	$	$
United States	1,362,080	2,152,365	2,998,857	4,625,791
Germany	817,466	559,862	1,268,794	1,238,770
China	500,717	433,837	616,656	446,267
Other	43,062	27,161	103,695	45,907
Canada	8,050	-	12,953	-
	2,731,375	3,173,225	5,000,955	6,356,735

18. EMPLOYEE BENEFITS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	$	$	$	$
Employee benefits	891,596	765,338	1,789,000	1,765,505

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

19. COMMITMENTS

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

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

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

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

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

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.

20. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

	June 30, 2018		December 31, 2017	
	Book value	Fair value	Book value	Fair value
Loans and receivables:				
Cash and cash equivalents	$ 5,408,581	$ 5,408,581	$ 6,173,895	$ 6,173,895
Trade and other receivables	1,503,911	1,503,911	1,459,925	1,459,925
Other financial liabilities:				
Accounts payable and accrued liabilities	$ 829,570	$ 829,570	$ 979,626	$ 979,626
Long-term debt	866,067	866,067	1,291,493	1,291,493
CAAP loan	252,502	252,502	234,366	234,366

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

a) Credit risk

Trade and other receivables

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 85% of trade receivables are due from one distributor at June 30, 2018 (December 31, 2017 – 93% from one distributor) and all trade receivables at June 30, 2018 and December 31, 2017 are current. This main distributor is considered to have good credit quality and historically has had 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 counterparties.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $5,408,581 at June 30, 2018 (December 31, 2017 - $6,173,895) 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	829,570	-	-	-	829,570
Long-term debt	683,805	214,282	-	-	898,087
CAAP loan	83,884	167,767	83,884	-	335,535
Total	1,597,259	382,049	83,884	-	2,063,192

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%	**+1%**
		Earnings & Equity	**Earnings & Equity**
Financial assets			
Accounts receivable	991,459	9,915	(9,915)
Financial liabilities			
Accounts payable and accrued liabilities	197,422	(1,974)	1,974
Total increase (decrease)		7,941	(7,941)

	Carrying Amount (EURO)	**Foreign Exchange Risk (EURO)**	
		-1%	**+1%**
		Earnings & Equity	**Earnings & Equity**
Financial liabilities			
Long-term debt	124,133	(1,241)	1,241
Total (decrease) increase		(1,241)	1,241

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, 2018.

2. Interest rate risk

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

21. 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, 2018.

22. INCOME (LOSS) PER COMMON SHARE

	Quarters Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss) for the period for basic and diluted earnings per share calculation	($165,693)	$370,422	($460,900)	$388,190
Weighted average number of common shares outstanding	75,756,859	75,344,730	75,734,815	75,256,385
Effect of dilutive stock options and warrants	-	1,415,313	-	1,565,485
Diluted weighted average number of common shares	75,756,859	76,760,043	75,734,815	76,821,870
Income (loss) per share - basic	($0.00)	$0.00	($0.01)	$0.01
Income (loss) per share - diluted	($0.00)	$0.00	($0.01)	$0.01

As the Company was in a net loss position for the three and six month periods ended June 30, 2018, the impact of the conversion of convertible securities is anti-dilutive. For the six month period ended June 30, 2017, 4,651,147 (three month period ended June 30, 2017, 4,647,813) stock options and warrants outstanding have not been included in the diluted income per share calculation because either the options' or warrants 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.

23. SUBSEQUENT EVENT

On August 24, 2018, the Company entered into a Settlement Agreement with AVAC Ltd. in respect of previously recognized royalty provisions aggregating $2,153,636 as described in note 11. Pursuant to the terms of the Settlement Agreement the royalty provisions are to be satisfied by a cash payment in the amount of $780,741 and by the issuance of 1,288,149 common shares of the Company each with a deemed issuance price of approximately $0.50 per share aggregating $650,000. The share for debt conversion has been conditionally accepted by the TSX Venture Exchange, and the shares issued will be subject to a four month hold period. As a result of the settlement, the Company will recognize a gain on the settlement of the royalty provisions of $722,895 in the consolidated statement of income (loss).