The MD&A provides commentary on the results of operations for the periods ended June 30, 2020 and 2019, the financial position as at June 30, 2020, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at August 18, 2020. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at June 30, 2020, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2019, 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, 2019. All comparative percentages are between the periods ended June 30, 2020 and 2019 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 18, 2020 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. 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 innovative products, technologies, and delivery systems.

Our products include:

- A commercial line of natural active ingredients, including *beta glucan, avenanthramides (colloidal oat extract*), *oat powder, oat oil*, *oat peptides,* and *lupin peptides,* which are marketed to the personal care, cosmetic, medical, and animal health industries through our distribution partners and direct sales;

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

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

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

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

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

- The development of new technologies to increase the content of avenanthramides to high levels to enable new innovative products to be introduced to new markets including functional foods, nutraceuticals, and botanical drugs.

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

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

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

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

- Developing and improving manufacturing technologies to ensure efficiencies; and

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

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

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

- Adding value to all aspects of our business;

- Enhancing the health of humans and animals;

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

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

- Developing personnel through guidance, opportunities, and encouragement.

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

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 87% of trade receivables are due from one distributor at June 30, 2020 (December 31, 2019 – 97% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	June 30, 2020 $	December 31, 2019 $
Not yet due	1,660,567	1,481,978
Less than 30 days past due	1,397,415	1,954,651
Less than 60 days past due, more than 30 days past due	-	-
More than 60 days past due	569	222,912
Total	3,058,551	3,659,541

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

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due. The expected loss rates for trade receivables are determined on a combined company-wide basis based upon the Company's historic default rates over the expected life of trade receivables adjusted for forward-looking estimates. The expected credit losses calculated for June 30, 2020 and December 31, 2019 are not significant and have not been recognized.

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 $4,267,320 at June 30, 2020 (December 31, 2019 - $1,857,195) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

The following are the contractual maturities of the Company's financial liabilities and obligations as at June 30, 2020:

	within 1 year	1 to 3 years	3 to 5 years	over 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	843,004	-	-	-	843,004
Long-term debt	16,483	-	-	-	16,483
CAAP loan	83,884	83,884	-	-	167,768
Total	943,371	83,884	-	-	1,027,255

c) Market risk

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

1. Foreign currency risk

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

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	2,243,348	22,433	(22,433)
Financial liabilities			
Accounts payable and accrued liabilities	140,233	(1,402)	1,402
Total increase (decrease)		21,031	(21,031)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at June 30, 2020.

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.

m) Public health crisis

The Company is exposed to risks related to pandemics or epidemics such as the ongoing Covid-19 virus pandemic. The Company could experience disruptions in our raw materials supply chain, in our manufacturing operations, and our shipping activities as a result of quarantines, facility closures, travel and logistics restrictions, and other limitations in connection with the outbreak. Covid-19 may adversely affect our operations, our suppliers, and our customers. While we would expect this to be temporary, there is uncertainty around the duration of the pandemic and its broader impact. The extent to which the pandemic will impact the Company's results will depend on further developments which are highly uncertain and cannot be predicted with great certainty.

Results of Operations
Periods Ended June 30, 2020 and 2019

CONSOLIDATED INCOME STATEMENT

	Quarters Ended June 30,				**Six Months Ended June 30,**			
$000s except per share data	2020	%	2019	%	2020	%	2019	%
Total revenues	**4,666**	**100%**	**3,054**	**100%**	**8,939**	**100%**	**6,251**	**100%**
Cost of goods sold	2,079	45%	1,592	52%	3,980	45%	3,433	55%
Gross margin	**2,587**	**55%**	**1,462**	**48%**	**4,959**	**55%**	**2,818**	**45%**
Research and product development	400	9%	812	27%	902	10%	1,612	26%
General and administration	838	18%	879	29%	1,703	19%	1,612	26%
Sales and marketing	30	1%	95	3%	78	1%	203	3%
Finance costs	44	1%	53	2%	146	2%	161	3%
Income (loss) from operations	**1,275**	**27%**	**(377)**	**-12%**	**2,130**	**24%**	**(770)**	**-12%**
Other income (expenses)	(198)	-4%	(182)	-6%	73	1%	(425)	-7%
Income (loss) before tax	**1,077**	**23%**	**(559)**	**-18%**	**2,203**	**25%**	**(1,195)**	**-19%**
Income taxes	-	0%	-	0%	-	0%	-	0%
Net income (loss)	**1,077**	**23%**	**(559)**	**-18%**	**2,203**	**25%**	**(1,195)**	**-19%**
Basic net income (loss) per common share	0.014		(0.007)		0.028		(0.016)	
Diluted net income (loss) per common share	0.014		(0.007)		0.028		(0.016)	

The following sections discuss the consolidated results from operations.

Revenue

$000s	Quarters Ended June 30, 2020	2019	Change	Six Months Ended June 30, 2020	2019	Change
Total revenues	4,666	3,054	53%	8,939	6,251	43%

Total sales revenue increased by approximately $1,612,000 from $3,054,000 in the second quarter of 2019 to $4,666,000 in the second quarter of 2020. The increase was primarily driven by a 47% increase in the sale of avenanthramides, but beta glucan sales also increased by 35% quarter to quarter. The higher sales revenue was also partially due to a higher U.S. dollar relative to the Canadian dollar compared to the comparative quarter, which positively impacted revenue by approximately $154,000.

Revenue for the first six months of 2020 was 43% higher than the comparative period. Consistent with the quarterly results, the increase was primarily driven by a 58% increase in the sale of avenanthramides and to a lesser extent an 18% increase in sales of beta glucan. The higher sales revenue was also partially due to a higher U.S. dollar relative to the Canadian dollar compared to the comparative period, which positively impacted revenue by approximately $274,000.

We are very pleased that we have been able to meet our customers increased demands during the COVID 19 pandemic.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

$000s	Quarters Ended June 30, 2020	2019	Change	Six Months Ended June 30, 2020	2019	Change
Sales	4,666	3,054	53%	8,939	6,251	43%
Cost of goods sold	2,079	1,593	31%	3,980	3,433	16%
Gross margin	2,587	1,461	77%	4,959	2,818	76%
Gross margin %	55%	48%		55%	45%	

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 2020, revenue increased by 53% but cost of goods sold only increased by 31%. The increase in cost of goods sold was significantly lower than the increase in revenue which has contributed to an overall increase in the gross margin percentage from 48% to 55%.

Cost of goods sold was impacted significantly from the quality of the raw material used that resulted in higher output of finished goods. At the same time, overhead, including fixed and variable costs and amortization was almost the same as the comparative period while production volumes increased by nearly 44% so the cost of the goods sold in the quarter was lower on per kilogram basis.

Gross margin for the quarter was positively impacted from both the strengthening U.S. dollar on sales and the effectively lower cost of goods sold despite the fact it was slightly negatively impacted from the lower margin sales product mix compared with the second quarter in the prior year.

For the six month period ended June 30, 2020, revenue increased by 43% but cost of goods sold only increased by 16%. The increase in cost of goods sold was significantly lower than the increase in revenue which has contributed to an overall increase in the gross margin percentage from 45% to 55%. Cost of goods sold and the gross margin percentage were impacted by the same factors that impacted the quarter.

RESEARCH AND PRODUCT DEVELOPMENT

	Quarters Ended June 30,			Six Months Ended June 30,		
$000s	2020	2019	Change	2020	2019	Change
Salaries and benefits	194	273		407	547	
Regulatory and patents	52	121		53	248	
Clinical studies	89	328		223	617	
Other	65	89		219	200	
Total research and product development expenditures	400	811	-51%	902	1,612	-44%

During the quarter ended June 30, 2020, research and development expenses decreased by $411,000 or 51%. The decrease is partially due to lower expenditures related to the pilot clinical study for the development of beta glucan as a cholesterol reducer, partially due to lower salaries and benefits expense, and partially due to lower regulatory and patent expense offset by an increase in expenditures on other projects compared to the prior quarter.

For the six month period ended June 30, 2020, research and development expenses have decreased by $710,000 or 44%. The decrease is primarily due to the same reasons as noted for the current quarter.

In the first six months of 2020 activities relating to the beta glucan study have been focused on patient enrollment and expenditures have been paid to the Montreal Heart Institute. The lower expenditures in the current three month and six month periods is a reflection of the slower than expected enrollment of patients for the study. This is partially due to an amendment to the protocol that was only approved by Health Canada in the first quarter of 2020 and which also needed approval at all centers conducting the study. The amendment was to allow the evaluation of subjects to be treated only with beta-glucan as compared to the original study protocol which allowed patients only to be evaluated with beta-glucan as an add on therapy to statins. The study has also faced enrollment delays throughout the first six months of 2020 due to the COVID 19 pandemic.

Research and development salaries expense was lower than the prior quarter primarily due to the receipt of $90,000 in grant funding in the current quarter compared to no funding in the comparative quarter. For the current six month period the Company received $178,000 to offset salaries expense compared to none in the comparative period. These decreases were partially offset by the addition of a new team member to the PGX group at the beginning of the year.

Regulatory and patents expense will vary from period to period based on the timing of filings and maintenance payments. Part of the decrease in the current quarter is due to timing as several patent maintenance payments that came due in the comparative second quarter will come due in the upcoming third quarter of the current year. Part of the decrease reflected in the current six month period is due to significant translation payments relating to new European patents on the Company's Pressurized Gas Expanded (PGX) Technology in the comparative six month period which were not recurring payments.

Expenditures on other projects are slightly lower in the current quarter primary due to one project not being undertaken in the current quarter that was completed in the comparative quarter which was partially offset by the initiation of a new PGX study in the current quarter to develop an inhalable therapeutic for COVID-19.

Expenditures on other projects during the current six month period are slightly higher primarily due to a final payment on a research program to study the bio-activity of new formulations of the Company's value driver active ingredients which was not incurred in the comparative period offset by the completion of other studies in the comparative period. The Company intends to continue to prioritize increased investment in research and development to be in line with the Company's business model of focusing on investing in its various enabling technologies, research on product development, and new applications for its value driving products, but the start of some of these studies are facing delays due to COVID 19.

GENERAL AND ADMINISTRATION

	Quarters Ended June 30,			Six Months Ended June 30,		
$000s	2020	2019	Change	2020	2019	Change
Salaries and benefits	207	196		446	413	
Consulting	120	120		240	240	
Licensing activities	47	-		107	-	
Board of directors compensation	45	58		114	123	
Insurance	36	31		72	67	
Accounting and audit fees	43	51		66	69	
Rent	15	15		27	31	
Public company costs	160	183		291	275	
Travel	4	39		28	51	
Depreciation and amortization	88	88		176	178	
Legal	8	21		9	24	
Other	65	77		127	141	
Total general and administration expenses	838	879	-5%	1,703	1,612	6%

General and administration expense for the quarter ended June 30, 2020 decreased by $41,000 or 5% from the comparative quarter. The overall decrease in the general and administration expense for the second quarter primarily relates to the following factors. Public company costs and legal fees decreased over the comparative quarter primarily because there were significant fees relating to the process to uplist to the OTCQX incurred in the comparative quarter which were not incurred in 2020 and these costs were more significant than the increases in public company costs due to higher stock exchange annual listing fees as the Company is listed now on both the TSXV exchange and the OTCQX Best Market exchange, due to additional investment into investor communications and virtual presentations, and due to the increased cost to hold the AGM in a virtual format. Travel decreased in the second quarter due to company-wide travel restrictions put into place as a result of the COVID 19 pandemic. Board of director compensation is lower primarily due to lower non-cash share-based compensation expense than that incurred in the comparative second quarter. These decreases were partially offset by an increase in expense relating to the engagement of an international consulting company to support Ceapro's licensing activities and an increase in salaries and benefits over the comparative quarter primarily due to existing employees increasing their time spent on general and administrative functions.

For the six month period ended June 30, 2020, general and administration expense increased by $91,000 or 6% from the comparative period. The factors that impacted the second quarter also impacted the six month period, however the increase in new licensing activities was higher than that of the quarter and the increases noted in public company costs were greater than the costs to uplist to the OTCQX in the comparative period which results in an overall increase in general and administration expense for the six month period ended June 30, 2020.

SALES AND MARKETING

$000s	Quarters Ended June 30, 2020	2019	Change	Six Months Ended June 30, 2020	2019	Change
Sales and marketing salaries	-	43		1	86	
Courses, conferences & advertising	29	51		76	115	
Other	-	1		-	2	
Total sales and marketing	29	95	-69%	77	203	-62%

Sales and marketing expense for the quarter ended June 30, 2020 decreased by $66,000 or 69% from the comparative quarter.

For the six month period ended June 30, 2020, sales and marketing expense decreased by $126,000 or 62% from the comparative period.

The primary reason for the decrease is due to the Company's reorganization of business development, marketing, and account management functions which resulted in the elimination of the director of marketing and sales position at the beginning of the year.

Courses, conferences, and advertising expense is lower as the Company travelled to a couple of conferences and tradeshows in the prior quarter and six month periods and did not in the current periods. Due to COVID 19 travel restrictions, all upcoming planned in-person conferences and trade shows have been deferred until it is determined to be safe to attend. The expense was also lower in the current period as the Company temporarily halted expenditures on some non-essential marketing and advertising activities.

FINANCE COSTS

$000s	Quarters Ended June 30, 2020	2019	Change	Six Months Ended June 30, 2020	2019	Change
Interest on long-term debt	1	3		2	4	
Interest on lease liabilities	38	42		78	84	
Transaction costs	-	-		1	3	
Royalties	-	-		55	55	
Accretion of CAAP loan	5	8		10	15	
	44	53	-17%	146	161	-9%

Finance costs decreased by 17% or $9,000 in the quarter ended June 30, 2020 from $53,000 in 2019 to $44,000. The decrease in finance costs is partially attributable to lower interest on long-debt debt and lower transactions costs as the principal balance of the long-term debt has been almost fully repaid. The decrease is also partially attributable to lower accretion on the CAAP loan and lower interest on the lease liabilities as the principal portions of these liabilities are also lower from ongoing repayment.

Finance costs for the six month period ended June 30, 2020 decreased by $15,000, from $161,000 in 2019 to $146,000, due to the same factors that impacted the quarter.

OTHER (INCOME) EXPENSES

	Quarters Ended June 30,			Six Months Ended June 30,		
$000s	2020	2019	Change	2020	2019	Change
Foreign exchange (gain) loss	180	64		(104)	130	
Plant relocation costs	19	42		33	131	
Other income	(1)	(6)		(2)	(10)	
Quality management system	-	81		-	174	
	198	181	9%	(73)	425	-117%

During the second quarter ended June 30, 2020, other expenses increased slightly by $17,000 from $181,000 in 2019 to $198,000. The increase was primarily due to a significant increase in the foreign exchange loss incurred in the quarter partially offset by lower expenditures relating to plant relocation costs and no expenditures relating to a quality management system compared to the comparative quarter.

During the six month period ended June 30, 2020, the Company had other income of $73,000 compared with other expenses in the comparative period of 2019 of $425,000. This improvement of $498,000 was primarily due to a foreign exchange gain during the current period compared to a foreign exchange loss in the comparative period, and also due to no expenditures relating to a quality management system and lower expenditures relating to plant relocation costs compared to the prior six month period.

The Company's foreign exchange losses and gains are primarily due to the translation of US dollar denominated accounts receivable and accounts payable balances, and from the timing of the realization of these balances. Foreign exchange will fluctuate between the quarters due to fluctuations between the US dollar and the Canadian dollar. During the first quarter of 2020 the Canadian dollar weakened significantly which resulted in a $284,000 foreign exchange gain in that quarter. During the second quarter of 2020 the Canadian dollar started recovering resulting in a $180,000 reversal of the foreign exchange gain experienced in the first quarter and by June 30, 2020, the exchange gain incurred over the current six month period was reduced to $104,000.

The Company's quality management system project, designed to focus policies towards consistently meeting or exceeding customer requirements and to facilitate the Company's strategic goal of transitioning to nutraceutical and pharmaceutical markets, was substantially completed in the second quarter of 2019. As a result, there were no expenditures in the first six months of 2020.

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 new manufacturing facility was substantially commissioned in the fourth quarter of 2018, any remaining validation and commissioning costs are reflected in this balance but have been declining the further along from substantial completion the Company gets. Also included in this account are costs relating to additional bays of the facility that have not commenced construction.

DEPRECIATION AND AMORTIZATION EXPENSE

In the six month period ended June 30, 2020, the total depreciation and amortization expense was $921,000 which was consistent with the expense of $913,000 in the comparative six month period in 2019. The expense was allocated as follows: $177,000 to general and administration expense (2019 - $180,000), $13,000 to inventory (2019 - $3,000), and $731,000 (2019 - $730,000) to cost of goods sold.

SEGMENTED FINANCIAL PERFORMANCE

The Company has two operating segments, the active ingredient product technology industry and the cosmeceutical industry. The cosmeceutical industry segment is operated through Juvente, a private company which was acquired on October 25, 2017.

Juvente is in the start-up phase, so the segment does not contribute significantly to revenue generation at this time. The segment's expenses during the current and comparative periods primarily relate to general and administrative costs and marketing costs. There was not a significant change in general and administrative expenses in Juvente between the current and comparative quarter and the current and comparative six month period but for sales and marketing, the current quarter is approximately $41,000 lower than the comparative quarter and the current six month period is approximately $79,000 lower than the comparative period. The decreases are primarily related to marketing and sales salaries and lower advertising expenditures which are more fully discussed in the sales and marketing section.

Juvente was acquired to execute on a strategic market diversification strategy to expand the Company's product portfolio with the development of formulations that utilize the Company's two value drivers, beta glucan and avenanthramides, and to enable the Company to enter into the high-end cosmeceuticals market and market directly to the end-user. The development of the formulations and new market would assist the Company with the strategy of utilizing the formulations as a delivery system for various bio-actives.

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	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues	4,666	4,273	3,721	2,908	3,054	3,197	4,467	2,125
Net income (loss)	1,077	1,126	166	(104)	(559)	(637)	444	(299)
Basic net income (loss) per common share	0.014	0.015	0.002	(0.001)	(0.007)	(0.008)	0.006	(0.004)
Diluted net income (loss) per common share	0.014	0.014	0.002	(0.001)	(0.007)	(0.008)	0.006	(0.004)

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 (loss) for the first two quarters of 2020 includes depreciation of approximately $460,000 per quarter (each of the 2019 quarters includes depreciation of approximately $456,000) which is significantly higher than comparative quarters in 2018, primarily due to depreciation on the Company's Edmonton manufacturing facility which substantially completed commissioning activities in the fourth quarter of 2018. The depreciation expense for the first two quarters of 2020 and each of the quarters in 2019 also includes depreciation of right-of-use assets relating to the adoption of IFRS 16, the lease standard, in the first quarter of 2019.

Net income in the fourth quarter of 2018 includes the recognition of impairment losses on intangible assets of $430,533 and goodwill of $218,606. These impairment charges are non-cash charges that do not have an adverse effect on the Company's liquidity or cash flows from operating activities and will not have an impact on future operations.

Net income (loss) in the first quarters of 2020 and 2019 includes non-cash share-based payment accounting charges of $94,000 (2019 -$98,000) primarily relating to the granting of stock options and restricted share units in January 2020 and January 2019. These accounting charges are higher than in any of the comparable quarters presented, as convertible securities granted during these periods were not as significant.

Net loss in the third quarter of 2018 includes the recognition of a gain on the settlement of royalty provisions in the amount of $722,895.

Significant New Accounting Standards

There were no new standards that became effective for periods beginning on or after January 1, 2020 that have a material impact on the Company's unaudited interim condensed consolidated financial statements for the quarter or six month period ending June 30, 2020.

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

Liquidity and Capital Resources

CAPITAL EMPLOYED

$000s	June 30, 2020	December 31, 2019
Non-current assets	19,975	20,858
Current assets	8,940	6,411
Current liabilities	(1,208)	(1,741)
Total assets less current liabilities	27,707	25,528
Non-current liabilities	3,084	3,216
Shareholders' equity	24,623	22,312
Total capital employed	27,707	25,528

Non-current assets decreased by $883,000 primarily due to a depreciation provision of $920,000 and an amortization provision on licenses of $1,000 offset by the acquisition of $38,000 of property and equipment.

Current assets increased by $2,529,0000 primarily due to an increase in cash from operations of $2,410,000, an increase in inventories of $592,000 and an increase in prepaid expenses and deposits of $83,000 offset by a decrease in trade and other receivables in the amount of $557,000.

Current liabilities totaling $1,208,000 decreased by the net amount of $533,000 primarily due a decrease in accounts payable and accrued liabilities of $448,000 and a decrease in the current portion of long-term debt of $96,000 offset by an increase in the current portion of lease liabilities of $7,000 and an increase in the current portion of CAAP loan of $5,000.

Non-current liabilities totaling $3,084,000 decreased by the net amount of $132,000 primarily due to the repayment of lease liabilities of $138,000 offset by an increase in the discounted CAAP loan of $5,000.

Equity of $24,623,000 at June 30, 2020 increased by $2,311,000 from equity of $22,312,000 at December 31, 2019 primarily due to the recognition of net income of $2,203,000 for the six month period ended June 30, 2020 and the recognition of share-based payment compensation of $108,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended June 30, 2020 and 2019.

	Quarters Ended June 30,		Six Months Ended June 30,	
$000s	2020	2019	2020	2019
Sources of funds:				
Funds generated from operations adjusted for non-cash items	1,597	5	3,323	-
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	-	2	-	-
Share issuance	-	13	-	14
Changes in non-cash working capital items relating to operating activities	638	525	-	966
	2,235	545	3,323	980
Uses of funds:				
Funds used in operations adjusted for non-cash items	-	-	-	(25)
Purchase of property and equipment	(18)	(13)	(38)	(28)
Deposits relating to investing activities	(50)	-	(50)	(53)
Changes in non-cash working capital items relating to operating activities	-	-	(516)	-
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	-	-	-	(1)
Interest paid	(39)	(45)	(80)	(89)
Repayment of long-term debt	(50)	(76)	(98)	(241)
Repayment of lease liabilities	(66)	(62)	(131)	(138)
	(223)	(196)	(913)	(575)
Net change in cash flows	2,012	349	2,410	405

Net change in cash flow was an increase of $2,410,000 during the six month period ended June 30, 2020 in comparison with an increase of $405,000 for the comparative period. A significant reason for the difference relates to cash generated from operations of $2,807,000 (after adjustment for non-cash items and working capital items) in the current period compared to $941,000 of cash generated from operations in the comparative period. The other significant reason for the improvement in cash flow is that long term debt repayment in the current period was only $98,000 compared to $241,000 in the comparative period as the Company fully repaid certain loans in the prior year and expects to complete repayment on the last long-term debt loan in July 2020.

The Company has a positive working capital balance of $7,731,502 at June 30, 2020. The Company estimates that the cash flows generated by its existing operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, maintain capital investment, and service debt needs. However, the Company has several ongoing research and development projects, planned upcoming clinical trials, and planned installation of a new ethanol recovery system, and management will have to prioritize expenditures on those projects that are in line with our stated objectives to develop new product applications and expand to the nutraceutical sector which we consider will provide the most beneficial outcome and value to our shareholders.

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

Total common shares issued and outstanding as at August 18, 2020 were 77,608,341 (August 27, 2019 – 77,335,841). In addition, 3,179,501 stock options as at August 18, 2020 (August 27, 2019 – 2,843,668 stock options and 137,500 restricted share units) 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.

d) During the year ended December 31, 2019, the Company entered into a contribution agreement with the National Research Council of Canada's Industrial Research Assistance Program (NRC -IRAP) for non-repayable funding of up to a maximum $268,000 for costs incurred on the continued development of the Company's PGX Technology for the generation of biopolymers or drug delivery systems for deployment into the functional food, cosmetic, and drug delivery markets. During the year ended December 31, 2019, the Company received or recorded as a receivable $153,936 which was recorded as a reduction of research and development expenses. As at December 31, 2019, NRC – IRAP and the Company agreed to amend the contribution agreement to decommit $25,000 of the non-repayable funding. During the six month period ended June 30, 2020, the Company received or recorded as a receivable $178,147 which was recorded as a reduction of research and development expenses. During the first quarter of 2020, - NRC – IRAP and the Company agreed to amend the contribution agreement again to increase funding by $107,000 for the period April 1, 2020 – March 31, 2022. The Company anticipates receiving $13,000 of this during the remainder of fiscal 2020 and $5,000 of this during fiscal 2021.

Related Party Transactions

During the six month period ended June 30, 2020, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $501,000 (2019 – $487,000) and share-based payments expense for key management personnel was $71,000 (2019 - $140,000).

The amount payable to directors at June 30, 2020 was $41,000 (2019 - $40,000). Consulting fees and key management salaries to officers included in accounts payable and accrued liabilities at June 30, 2020 was $Nil (2019 - $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, 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.

Outlook

Our focus remains on the health and safety of our associates during this COVID-19 pandemic crisis, followed by business continuity. Depending on the evolution of the COVID-19 pandemic, we expect Ceapro's cosmeceuticals base business to continue to grow and provide positive operating cash flows to support the transition to a new business model from a contract manufacturer to a biopharmaceutical development company involved in nutraceuticals and pharmaceuticals. As part of new product development, the Company will pursue the development of formulations potentially allowing delivery of bioactives through different modes of administration (oral, topical, sub-lingual, nasal spray). The development of such delivery systems being made possible using Ceapro's proprietary PGX Technology for which we are currently assessing various scenarios and locations for commercial scale up, a key step to secure partnerships. Taking into account travel bans due to COVID-19, we still expect to unveil the PGX strategy during the second half of 2020. Beta Glucan extracted from yeast is poised to become a key strategic asset as part of the PGX strategy.

From a manufacturing standpoint and depending on the evolution of the COVID-19 pandemic, we expect to have completed the transition to the Edmonton site and have fully decommissioned the Leduc site by the end of Q3, 2020.

To date, the Company’s business has not been significantly impacted by the COVID-19 pandemic. The Company has instituted additional preventative measures to ensure the highest level of safety for Ceapro’s employees. The Company has also worked hard to mitigate any potential supply chain disruptions to ensure we can reliably continue to offer our high quality products throughout the pandemic and even beyond. Should the Company be able to service its customers without disruption, and given results obtained so far, management believes the Company is well positioned to deliver a double-digit growth in sales over 2019.

Ceapro has all the key components for success based on a solid foundation, a highly competent team, a healthy balance sheet, and a strong technology and product portfolio with the potential of getting into very large markets.

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.