Financial Statements

Unaudited Condensed Interim Consolidated Financial Statements for the Second Quarter Ended June 30, 2022 and 2021

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

CEAPRO INC.

Condensed Interim Consolidated Balance Sheets

Unaudited

	June 30, 2022	December 31, 2021
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	11,367,997	7,780,989
Trade receivables	3,360,751	2,092,842
Other receivables	90,723	45,850
Inventories (note 3)	2,116,159	1,644,893
Prepaid expenses and deposits	169,978	162,919
Total Current Assets	17,105,608	11,727,493
Non-Current Assets		
Investment tax credits receivable	766,629	766,629
Deposits	79,539	79,539
Licences (note 4)	14,069	15,551
Property and equipment (note 5)	16,802,060	17,499,774
Deferred tax assets	-	439,063
Total Non-Current Assets	17,662,297	18,800,556
TOTAL ASSETS	34,767,905	30,528,049
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	613,721	682,057
Current portion of lease liabilities (note 6)	303,354	290,055
Total Current Liabilities	917,075	972,112
Non-Current Liabilities		
Long-term lease liabilities (note 6)	2,202,269	2,358,862
Deferred tax liabilities	692,843	-
Total Non-Current Liabilities	2,895,112	2,358,862
TOTAL LIABILITIES	3,812,187	3,330,974
Equity		
Share capital (note 7 (b))	16,657,044	16,557,401
Contributed surplus (note 7 (e))	4,681,131	4,680,690
Retained earnings	9,617,543	5,958,984
Total Equity	30,955,718	27,197,075
TOTAL LIABILITIES AND EQUITY	34,767,905	30,528,049

See accompanying notes

Approved on Behalf of the Board

SIGNED: "Geneviève Foster"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

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

	Quarters Ended June 30, 2022	Quarters Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
	$	$	$	$
Revenue (note 13)	5,500,399	4,408,631	11,672,023	9,110,374
Cost of goods sold	1,861,064	1,770,153	4,078,079	4,213,953
Gross margin	3,639,335	2,638,478	7,593,944	4,896,421
Research and product development	543,924	830,511	899,205	1,647,358
General and administration	1,069,275	952,847	1,838,320	1,665,054
Sales and marketing	9,248	16,362	14,547	29,600
Finance costs (note 10)	32,175	38,344	120,210	132,254
Income from operations	1,984,713	800,414	4,721,662	1,422,155
Other (income) expense (note 9)	(191,841)	123,942	(68,803)	230,807
Income before tax	2,176,554	676,472	4,790,465	1,191,348
Deferred income tax expense	514,283	-	1,131,906	-
Total net income and comprehensive income for the period	1,662,271	676,472	3,658,559	1,191,348
Net income per common share (note 16):				
Basic	0.02	0.01	0.05	0.02
Diluted	0.02	0.01	0.05	0.02
Weighted average number of common shares outstanding (note 16):				
Basic	77,734,865	77,673,832	77,710,854	77,662,495
Diluted	78,474,139	78,684,303	78,405,883	78,684,344

See accompanying notes

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

	Share capital $	Contributed surplus $	Retained earnings $	Total equity $
Balance December 31, 2021	16,557,401	4,680,690	5,958,984	27,197,075
Share-based payments (note 7 (c))	-	39,924	-	39,924
Share options exercised	99,643	(39,483)	-	60,160
Total net income and comprehensive income for the period	-	-	3,658,559	3,658,559
Balance June 30, 2022	16,657,044	4,681,131	9,617,543	30,955,718
Balance December 31, 2020	16,511,067	4,682,393	3,116,507	24,309,967
Share-based payments (note 7 (c))	-	6,828	-	6,828
Share options exercised	44,552	(18,932)	-	25,620
Total net income and comprehensive income for the period	-	-	1,191,348	1,191,348
Balance June 30, 2021	16,555,619	4,670,289	4,307,855	25,533,763

See accompanying notes

CEAPRO INC.
Condensed Interim Consolidated Statements of Cash Flows
Unaudited

Six Months Ended June 30,	2022 $	2021 $
OPERATING ACTIVITIES		
Net income for the period	3,658,559	1,191,348
Adjustments for items not involving cash		
Finance costs	65,210	71,662
Depreciation and amortization	939,191	937,356
Accretion	-	5,592
Deferred income tax expense	1,131,906	-
Share-based payments	39,924	6,828
	5,834,790	2,212,786
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(1,267,909)	218,155
Other receivables	(44,873)	56,311
Inventories	(471,266)	41,916
Prepaid expenses and deposits	(7,059)	51,179
Accounts payable and accrued liabilities relating to operating activities	(20,582)	(75,337)
	(1,811,689)	292,224
Net income for the year adjusted for non-cash and working capital items	4,023,101	2,505,010
Interest paid	(65,210)	(71,662)
CASH GENERATED FROM OPERATIONS	3,957,891	2,433,348
INVESTING ACTIVITIES		
Purchase of property and equipment	(239,995)	(296,534)
Deposits relating to the purchase of equipment	-	(16,733)
Accounts payable and accrued liabilities relating to investing activities	(47,754)	(134,554)
CASH USED IN INVESTING ACTIVITIES	(287,749)	(447,821)
FINANCING ACTIVITIES		
Stock options exercised	60,160	25,620
Repayment of lease liabilities	(143,294)	(110,748)
CASH USED IN FINANCING ACTIVITIES	(83,134)	(85,128)
Increase in cash and cash equivalents	3,587,008	1,900,399
Cash and cash equivalents at beginning of the period	7,780,989	5,369,029
Cash and cash equivalents at end of the period	11,367,997	7,269,428

See accompanying notes

Cash and cash equivalents are comprised of $11,367,997 (2021 - $7,262,590) on deposit with financial institutions and $NIL (2021 - $6,838) held in money market mutual funds.

1. NATURE OF BUSINESS OPERATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of consolidated financial statements, including 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, 2021.

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, 2021.

The Audit Committee authorized these condensed interim consolidated financial statements for issue on August 23, 2022.

b) Basis for presentation

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., Ceapro USA Inc., and Juvente^{DC} Inc. Effective December 31, 2021, the Company wound up Ceapro Technology Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc. into the Company and dissolved Ceapro USA Inc.

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

c) Future accounting pronouncements

The IASB has published several new, but not yet effective, standards, amendments to existing standards, and interpretations. None of these standards, amendments to existing standards, or interpretations have been early adopted by the Company, and management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. No pronouncements have been disclosed as they are not expected to have a material impact on the Company's condensed interim consolidated financial statements.

3. INVENTORIES

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

	June 30, 2022	December 31, 2021
	$	$
Raw materials	726,251	549,022
Work in progress	687,764	717,273
Finished goods	702,144	378,598
	2,116,159	1,644,893

Inventories expensed to cost of goods sold during the three and six month periods ended June 30, 2022 are $1,849,410 and $4,055,268 respectively (June 30, 2021 - $1,755,620 and $4,180,100).

4. 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 12 (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 expense for the six month period ended June 30, 2022 (June 30, 2021 - $1,482) (see note 12 (a)).

Cost of licences	$
Balance - December 31, 2021	44,439
Additions	-
Balance - June 30, 2022	44,439
Accumulated amortization	
Balance - December 31, 2021	28,888
Amortization	1,482
Balance - June 30, 2022	30,370
Net book value	
Balance - June 30, 2022	14,069
Balance - December 31, 2021	15,551

5. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Buildings $	Leasehold Improvements $	Total $
December 31, 2021	1,978,427	12,279,149	321,972	494,968	3,430,656	8,724,449	27,229,621
Additions	2,080	134,653	5,666	93,135	-	4,461	239,995
June 30, 2022	1,980,507	12,413,802	327,638	588,103	3,430,656	8,728,910	27,469,616
Accumulated Depreciation							
December 31, 2021	-	5,710,904	265,227	446,850	1,009,258	2,297,608	9,729,847
Additions	-	425,078	6,053	11,660	166,582	328,336	937,709
June 30, 2022	-	6,135,982	271,280	458,510	1,175,840	2,625,944	10,667,556
Carrying Amount							
June 30, 2022	1,980,507	6,277,820	56,358	129,593	2,254,816	6,102,966	16,802,060
December 31, 2021	1,978,427	6,568,245	56,745	48,118	2,421,398	6,426,841	17,499,774

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Six Months Ended June 30, 2022	563,395	210,211	164,103	937,709
Six Months Ended June 30, 2021	692,024	77,457	166,393	935,874

Included in the net carrying amount of property and equipment at June 30, 2022, are right-of-use assets relating to buildings, in the amount of $2,254,816 (December 31, 2021 - $2,421,398).

Included in the carrying amount of leasehold improvements is $1,059,707 (December 31, 2021 - $1,059,707) and included in the carrying amount of equipment not available for use is $1,980,507 (December 31, 2021 - $1,978,427) which represent the accumulated expenditures incurred on the purchase of an ethanol recovery system, equipment purchased for technology scale-up, other equipment, and the engineering design for the related construction and installation of the ethanol recovery system. At June 30, 2022, no amortization has commenced on these balances as construction and installation activities have not commenced.

6. LEASE LIABILITIES

The Company has leases for manufacturing facilities, office space, and warehouse. The lease liabilities consist of leases of buildings. The leases have been discounted using interest rates between 3.42% - 5.24%.

	Six Months Ended June 30, 2022 $	Year Ended December 31, 2021 $
Balance at beginning of period	2,648,917	2,899,575
Interest expense	65,782	141,298
Lease payments	(209,076)	(391,956)
Balance at end of period	2,505,623	2,648,917
Less current portion	303,354	290,055
	2,202,269	2,358,862

Future minimum lease payments at June 30, 2022 are as follows:

	Within one year $	One to five years $	More than five years $	Total $
Lease payments	424,402	1,595,806	1,002,570	3,022,778
Finance charges	121,048	325,330	70,777	517,155
Net present values	303,354	1,270,476	931,793	2,505,623

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	$	$	$	$
Short-term leases	6,138	5,759	12,277	18,833

At June 30, 2022, the Company was committed to short term leases and the total commitment at that date was $21,733.

7. 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, 2022		Year Ended December 31, 2021	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance at beginning of the period	77,685,843	16,557,401	77,621,341	16,511,067
Stock options exercised	381,000	99,643	64,502	46,334
Balance at end of the period	78,066,843	16,657,044	77,685,843	16,557,401

c. Stock Option Share-Based Payment Plan

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

The Company uses the Black-Scholes option pricing model to price its options.

In the six month period ended June 30, 2022, the Company granted 300,000 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 2022 was 2.18%, the weighted average expected volatility was 66% which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years, the forfeiture rate was 0%, the weighted average share price was $0.48, the weighted average exercise price was $0.48, and the expected dividends were nil. The weighted average grant date fair value of options granted in the six month period ended June 30, 2022 was $0.27 per option.

In the six month period ended June 30, 2021, the Company did not grant stock options.

The share-based payments expense recorded during the current six month period relating to options granted in 2022, 2021, and 2020 was $39,924 (during 2021 relating to options granted in 2020 and 2019 was $6,828).

A summary of the status of the Company's stock options at June 30, 2022 and December 31, 2021 and changes during the periods ended on those dates is as follows:

	Six Months Ended June 30, 2022		Year Ended December 31, 2021	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of period	2,990,333	0.56	3,048,501	0.55
Granted	300,000	0.48	30,000	0.64
Exercised	(381,000)	0.16	(64,502)	0.41
Forfeited	-	-	(23,666)	0.37
Outstanding at end of period	2,909,333	0.64	2,990,333	0.56
Exercisable at end of period	2,689,333	0.65	2,848,673	0.58

Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Contractual Life Remaining (years)	Number of Options Outstanding	Number of Options Exercisable
0.30	0.52	2027	4.8	150,000	50,000
0.24	0.44	2027	4.7	150,000	50,000
0.35	0.64	2026	4.2	30,000	10,000
0.21	0.36	2025	2.5	297,667	297,667
0.25	0.39	2024	1.5	304,666	304,666
0.47	0.50	2028	5.5	195,000	195,000
0.56	0.59	2027	5.3	90,000	90,000
1.22	1.30	2027	4.8	10,000	10,000
1.65	1.75	2027	4.5	400,000	400,000
0.34	0.36	2025	2.8	150,000	150,000
0.47	0.50	2025	2.6	100,000	100,000
0.60	0.64	2025	2.5	712,000	712,000
0.37	0.27	2024	2.4	150,000	150,000
0.08	0.10	2024	1.5	150,000	150,000
0.05	0.10	2023	0.5	20,000	20,000
				2,909,333	2,689,333
Weighted Average Contractual Life Remaining				3.2	3.0

d. Restricted Share Unit Share-Based Payment Plan

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

The Company did not grant RSU's during the six month period ended June 30, 2022 or the year ended December 31, 2021 and there are no RSU's granted and outstanding during those periods.

Of the 1,000,000 RSU's authorized for grant under the RSU plan, at June 30, 2022, 370,000 RSU's are available for grant (December 31, 2021 – 370,000).

e. Contributed surplus

	Six Months Ended June 30, 2022	Year Ended December 31, 2021
	$	$
Balance at beginning of the period	4,680,690	4,682,393
Share-based payments (note 7 (c))	39,924	17,906
Stock options exercised	(39,483)	(19,609)
Balance at end of the period	4,681,131	4,680,690

8. RELATED PARTY TRANSACTIONS

Related party transactions during the periods are as follows:

	Quarters Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	$	$	$	$
Key management salaries, short-term benefits, consulting fees, and director fees	376,449	358,948	638,027	607,412
Key management personnel share-based payments	23,699	2,001	37,267	4,234
Amount payable to directors	37,723	39,428	37,723	39,428

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.

9. OTHER EXPENSE

	Quarters Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	$	$	$	$
Foreign exchange (gain) loss	(205,437)	92,769	(98,639)	168,623
Other (income) expense	(10,833)	3,692	(14,170)	6,745
Plant relocation costs	24,429	27,481	44,006	55,439
	(191,841)	123,942	(68,803)	230,807

10. FINANCE COSTS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	$	$	$	$
Interest on lease liabilities	32,175	35,496	65,210	71,662
Royalties	-	-	55,000	55,000
Accretion of CAAP loan	-	2,848	-	5,592
	32,175	38,344	120,210	132,254

11. EMPLOYEE BENEFITS EXPENSE

	Quarters Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	$	$	$	$
Employee benefits	1,137,375	1,045,802	2,161,450	1,999,996

Employee benefits include wages, salaries, bonuses, and CPP, EI, WCB contributions, share-based payment expense, and benefit premiums. Employee benefits are included in cost of goods sold, general and administration, research and product development, and sales and marketing expenses.

In the six month period ended June 30, 2022, employee benefits expense has been allocated as follows: $912,000 to general and administration expense (2021 - $777,000), $663,000 to cost of goods sold (2021 - $641,000), and $586,000 to research and development expense (2021 - $582,000).

In the quarter ended June 30, 2022, employee benefits expense has been allocated as follows: $516,000 to general and administration expense (2021 - $441,000), $332,000 to cost of goods sold (2021 - $316,000), and $289,000 to research and development expense (2021 - $289,000).

12. COMMITMENTS AND CONTINGENCIES

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

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

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

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

(b) During the year ended December 31, 2014, the Company entered into a licence agreement with the University of Alberta for the rights to an enabling pressurized gas expanded technology (PGX) that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients. The agreement expires after a term of 20 years or after the expiration of the last patent obtained, whichever event shall occur first.

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

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

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

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

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

(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.

13. REVENUE

The Company has one reportable operating segment and revenue stream, being the operations relating to the active ingredient product technology industry.

The active ingredient product technology industry involves the development of proprietary extraction technologies and the application of these technologies to the production and development and commercialization of active ingredients derived from oats and other renewable plant resources for healthcare and cosmetic industries. Active ingredients produced include oat beta glucan and avenanthramides. These and similar manufactured products are sold primarily through distribution networks.

Geographic Information

The following table presents revenue from contracts with customers disaggregated by geographic location to depict how the nature, amount, timing, and uncertainty of revenue and cash flows could be affected by economic factors:

	Quarters Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	$	$	$	$
United States	3,837,675	3,442,902	8,030,565	6,880,182
Germany	1,132,572	860,186	2,718,328	1,897,505
China	514,327	60,452	889,851	251,742
Other	11,125	20,134	21,589	38,917
Canada	4,700	24,957	11,690	42,028
	5,500,399	4,408,631	11,672,023	9,110,374

During the six month period ended June 30, 2022, the Company had export sales to one major distributor of the Company's products in the aggregate amount of $11,043,902 representing 95% of total revenue (2021 - $8,342,303 representing 92% of total revenue). This major distributor sells to dozens of customers on a worldwide basis.

All the assets of the Company, which support the revenues of the Company, are located in Canada.

14. FINANCIAL INSTRUMENTS

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

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

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

The fair value of cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities approximate their carrying amount(s) due to their short-term nature.

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

a) Credit risk

Trade and other receivables

The Company makes sales to distributors that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 96% of trade receivables are due from one distributor at June 30, 2022 (December 31, 2021 – 93% from one distributor). This main distributor is considered to have good credit quality and historically has had a high quality credit rating. The majority of the Company's sales are invoiced on standard commercial terms of 30 days.

The aging of trade receivables is as follows:

	June 30, 2022 $	December 31, 2021 $
Not yet due	1,951,832	1,378,587
Less than 30 days past due	1,076,460	262,125
Less than 60 days past due, more than 30 days past due	-	413,842
More than 60 days past due	332,459	38,288
Total	3,360,751	2,092,842

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, 2022 and December 31, 2021 are not significant and have not been recognized.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $11,367,997 at June 30, 2022 (December 31, 2021 - $7,780,989) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

The following is the contractual maturity of the Company's financial liabilities and obligations at June 30, 2022:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	613,721	-	-	-	613,721

c) Market risk

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

1. Foreign currency risk

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

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company. The amounts have been translated based on the exchange rate at June 30, 2022.

	Carrying Amount (USD)	Foreign Exchange Risk (CDN)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	2,607,675	33,603	(33,603)
Financial liabilities			
Accounts payable and accrued liabilities	202,089	(2,604)	2,604
Total increase (decrease)		30,999	(30,999)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at June 30, 2022.

2. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The Company has minimal interest rate risk because it has no long-term debt.

15. 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, 2022.

16. INCOME PER COMMON SHARE

	Quarters Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income for the period for basic and diluted earnings per share calculation	$1,662,271	$676,472	$3,658,559	$1,191,348
Weighted average number of common shares outstanding	77,734,865	77,673,832	77,710,854	77,662,495
Effect of dilutive stock options	739,274	1,010,471	695,029	1,021,849
Diluted weighted average number of common shares	78,474,139	78,684,303	78,405,883	78,684,344
Income per share - basic	$0.02	$0.01	$0.05	$0.02
Income per share - diluted	$0.02	$0.01	$0.05	$0.02

For the six month period ended June 30, 2022, 1,442,000 (six month period ended June 30, 2021 – 410,000) stock options outstanding have not been included in the diluted income per share calculation because the options' exercise price was greater than the average market price of the common shares during the period.

For the quarter ended June 30, 2022, 1,442,000 (quarter ended June 30, 2021 – 410,000) stock options outstanding have not been included in the diluted income per share calculation because the options' exercise price was greater than the average market price of the common shares during the period.