The MD&A provides commentary on the results of operations for the periods ended June 30, 2023 and 2022, the financial position as at June 30, 2023, and the outlook of Ceapro Inc. ("Ceapro" and "the Company") based on information available as at August 27, 2023. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at June 30, 2023, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2022, 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, 2022. All comparative percentages are between the periods ended June 30, 2023 and 2022 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, 2023 and contains forward-looking statements. Forward-looking statements and information can generally be identified by the use of forward-looking terminology such as 'may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", "plans" or similar terminology. 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 and its wholly-owned subsidiary Juvente^{DC} Inc. (Juvente) are incorporated under the Canada Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island.

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.

Results of Operations – Periods Ended June 30, 2023 and 2022

CONSOLIDATED INCOME STATEMENT

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023		2022		2023		2022	
$000s except per share data		%	*Restated*	%		%	*Restated*	%
Total revenues	**1,869**	**100%**	**5,500**	**100%**	**5,364**	**100%**	**11,672**	**100%**
Cost of goods sold	798	43%	1,674	30%	2,687	50%	4,131	35%
Gross margin	**1,070**	**57%**	**3,826**	**70%**	**2,676**	**50%**	**7,541**	**65%**
Research and product development	927	50%	544	10%	1,500	28%	899	8%
General and administration	1,625	87%	1,069	19%	3,147	59%	1,838	16%
Sales and marketing	13	1%	9	0%	22	0%	15	0%
Finance costs	33	2%	32	1%	121	2%	120	1%
(Loss) income from operations	**(1,528)**	**-82%**	**2,172**	**39%**	**(2,114)**	**-39%**	**4,669**	**40%**
Other income	(57)	-3%	(192)	-3%	(153)	-3%	(69)	-1%
(Loss) income before tax	**(1,470)**	**-79%**	**2,364**	**43%**	**(1,961)**	**-37%**	**4,737**	**41%**
Income tax (benefit) expense	(316)	-17%	558	10%	(421)	-8%	1,119	10%
Net (loss) income	**(1,154)**	**-62%**	**1,805**	**33%**	**(1,539)**	**-29%**	**3,618**	**31%**
Basic net (loss) income per common share	(0.01)		0.02		(0.02)		0.05	
Diluted net (loss) income per common share	(0.01)		0.02		(0.02)		0.05	

The following sections discuss the consolidated results from operations.

RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

During the year ended December 31, 2022, the Company conducted a detailed evaluation of the manufacturing process of its extraction facility in Edmonton in order to assess the appropriateness of the accounting estimates used to assign the costs of conversion of inventories from the raw materials stage through to the finished goods stage for the valuation of inventories.

Pursuant to the completion of the analysis, the Company changed its method of assigning the costs of conversion to ensure the valuation of inventory incorporates the costs of conversion more appropriately through the different stages of production for the multiple products produced at the facility. The change will also allow for more appropriate valuation of future products currently under development. In applying the change to the method of assigning conversion costs, the Company determined that more costs of conversion should have been allocated to the work in progress inventories and less to cost of goods sold at December 31, 2021. As a result, the Company retrospectively restated the consolidated financial statements for the year ended December 31, 2021. The consolidated financial statements of the Company for the year ended December 31, 2022, reflect the adjustments for which the accounts were restated. Refer to Note 3 of the audited consolidated financial statements for the year ended December 31, 2022.

The changing of the method of assigning costs of conversion to inventories impacted certain of the comparative figures that were previously published in the 2022 quarterly financial statements. These comparative accounts have been restated as outlined in Note 3 of the unaudited interim condensed consolidated financial statements as at June 30, 2023.

Revenue

$000s	Three Months Ended June 30, 2023	2022	Change	Six Months Ended June 30, 2023	2022	Change
Total revenues	1,869	5,500	-66%	5,364	11,672	-54%

Revenue for the three months ended June 30, 2023, decreased by approximately $3,631,000 or 66% from the comparative period in 2022. The decrease was driven by an overall decrease in sales volumes of 72% compared to the prior period, which was primarily due to lower sales of the Company's flagship products avenanthramides and beta glucan as well as lower sales of oat oil. The lower sales revenue was partially offset due to a higher U.S. dollar relative to the Canadian dollar compared to the prior period which positively impacted revenue by approximately $98,000.

Revenue for the six months ended June 30, 2023, decreased by approximately $6,308,000 or 54% from the comparative period in 2022. Consistent with the three month period, the decrease was driven by an overall decrease in sales volumes of 61% and was a result of lower sales of all the Company's products. The lower sales revenue was partially offset due to a higher U.S. dollar relative to the Canadian dollar compared to the prior period which positively impacted revenue by approximately $325,000.

The Company's revenues have been impacted by the re-organization resulting from the spinoff of the consumer division of one major customer and is experiencing a lag in new ordering. We expect that the major customer will resume its re-ordering pattern and we continue to look for additional sources of revenues.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

$000s	Three Months Ended June 30, 2023	2022 *Restated*	Change	Six Months Ended June 30, 2023	2022 *Restated*	Change
Sales	1,869	5,500	-66%	5,364	11,672	-54%
Cost of goods sold	798	1,674	-52%	2,687	4,131	-35%
Gross margin	1,070	3,826	-72%	2,676	7,541	-65%
Gross margin %	57%	70%		50%	65%	

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 property and equipment.

During the three months ended June 30, 2023, revenue decreased by approximately 66% and cost of goods sold only decreased by 52%, this resulted in a decrease in the gross margin percentage from 70% in the prior period to 57% in the current period.

For the six months ended June 30, 2023, revenue decreased by approximately 54% and cost of goods sold only decreased by 35%, this resulted in a decrease in the gross margin percentage from 65% in the prior period to 50% in the current period.

A significant factor in the relative decrease in the gross margin percentage relates to the higher cost to produce our flagship avenanthramide product which makes up a majority of the goods sold in all periods. The finished goods in the current three and six month periods were produced using concentrate manufactured from lower yielding grain compared to the high-quality grain used to manufacture the finished goods in the comparative periods and as a result have a higher cost. While overheads expenses are lower in the current periods, production is also lower in the current periods compared to significantly high levels of production in the comparative periods, as a result there is a higher overhead cost reflected in the cost of goods sold compared to the prior periods.

RESEARCH AND PRODUCT DEVELOPMENT

	Three Months Ended June 30,			Six Months Ended June 30,		
$000s	2023	2022	Change	2023	2022	Change
Salaries and benefits	255	199		563	397	
Regulatory and patents	138	20		162	112	
Clinical study - avenanthramides	350	197		400	236	
Other	184	128		375	154	
Total research and product development expenditures	927	544	70%	1,500	899	67%

During the three months ended June 30, 2023, research and development expenses increased by $383,000 or 70%. For the six months ended June 30, 2023, research and development expenses have increased by $601,000 or 67%.

Regulatory and patents expense will vary from period to period based on the timing of filings and maintenance payments. In the prior year a significant amount of the patent expenses were incurred in the first quarter and in the current year they were incurred in the second quarter, as a result there is a significant increase in the current three month period.

Research and development salaries expense is presented net of grant funding. The salaries expense is higher in the current three and six month periods compared to the prior periods primarily due to approximately $90,000 higher grant funding received in the prior three month period compared to the current three month period and $185,000 higher grant funding received in the prior six month period compared to the current six month period. The grant program was completed in the first quarter of 2023, so no further funding is expected over the rest of the year. The increase in salaries and benefits expense is also partially due to higher share-based payment expense from the granting of stock options to employees in January 2023.

Expenditures on other projects during the current three and six month periods are higher than the comparative periods primarily due to the initiation of a new study with the Angiogenesis Foundation to investigate additional features of bioactivity that define function at the tissue and cell-specific level on our active ingredients.

Expenditures relating to the new clinical study on avenanthramides were slightly higher in the current three and six month periods due to additional fees paid to the Montreal Heart Institute for clinical trial start-up expenses. Enrollment of subjects is now expected to start in Q4 2023.

The Company expects research and development spending to increase in future periods, especially once the Company commences the Avenanthramide study. Significant investment in research and development is 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.

GENERAL AND ADMINISTRATION

	Three Months Ended June 30,			Six Months Ended June 30,		
$000s	2023	2022	Change	2023	2022	Change
Salaries and benefits	493	316		854	533	
Consulting	200	200		320	320	
Licensing activities	-	41		30	94	
Board of Directors compensation	196	75		467	134	
Insurance	78	50		134	99	
Accounting and audit fees	79	44		114	76	
Rent	19	18		37	36	
Public company costs	137	117		209	185	
Travel	19	23		43	27	
Depreciation and amortization	96	89		192	166	
Legal	232	17		575	20	
Other	76	79		172	148	
Total general and administration expenses	1,625	1,069	52%	3,147	1,838	71%

General and administration expense for the three months ended June 30, 2023, increased by $556,000 or 52% from the comparative period, primarily due to an increase in salaries and benefits expense, Board of Directors compensation and legal fees. These increases were offset partially by a decrease in licensing activities expense as the Company cancelled an engagement with an international consulting company.

For the six month period ended June 30, 2023, general and administration expense increased by $1,309,000 or 71% over the comparative period primarily due to the same reasons noted for the three month period.

Salaries and benefits expense increased significantly in both the current three and six month periods, partially due to a new hire in the third quarter of the prior year relating to corporate development, the hiring of a senior VP of technical operations in the second quarter of the current year, an increase in recruitment fees related to the new hires, and partially due to an increase in share-based payment expense relating to the granting of stock options in January 2023 and May 2023.

Board of Directors compensation expense also increased significantly in both the current quarter and six month period. This was partially due to an increase in director base compensation that was effective late in the second quarter in the prior year, in order to better realign the compensation to market. Base director fees had not been increased in over 10 years. Board of Director fees also were higher due to a higher share-based payment expense relating to the granting of stock options in January 2023. The primary reason for the increase in Board of Director fees is related to the Company's objective to focus on value creation and growth of the Company. In line with this objective, in the current three and six month periods, directors were engaged in assessing different strategic growth opportunities which also resulted in significant legal fees incurred mostly for conducting preliminary due diligence on one particular opportunity which has been the subject of various levels of attention by the Company during the financial year. As noted in the first quarter, the Company continues to assess all possible strategies to support the accelerated growth of the Company in step with the planned intention of entering into new markets through our pipeline of new products and technologies, although no assurances can be provided as to whether such strategies will be able to be successfully implemented in a timely fashion, or at all.

SALES AND MARKETING

	Three Months Ended June 30,			Six Months Ended June 30,		
$000s	2023	2022	Change	2023	2022	Change
Courses, conferences & advertising	13	9		22	15	
Total sales and marketing	13	9	44%	22	15	47%

Sales and marketing expense for the three months ended June 30, 2023, increased by $4,000 or 44% from the comparative period. For the six months ended June 30, 2023, sales and marketing expense increased by $7,000 or 47% from the comparative period.

The Company's primary marketing strategy is to sell mostly though a distribution network instead of selling directly to end-users and as a result sales and marketing expenses are negligible.

The expenses incurred in the current and comparative periods primarily relate to the Company's subsidiary Juvente which has not been focusing on these activities as sales have been primarily restricted to website sales since the start of the COVID-19 pandemic.

FINANCE COSTS

	Three Months Ended June 30,			Six Months Ended June 30,		
$000s	2023	2022	Change	2023	2022	Change
Interest on lease liabilities	33	32		66	65	
Royalties	-	-		55	55	
	33	32	3%	121	120	1%

Finance costs increased by 3% or $1,000 in the three months ended June 30, 2023, from $32,000 in 2022 to $33,000. The increase is due to slightly higher lease interest on lease liabilities as a result of entering into a new lease in November 2022.

Finance costs for the six month period ended June 30, 2022 increased by 1% or $1,000, from $120,000 in 2022 to $121,000, due to the same factor that impacted the three month period.

OTHER (INCOME) EXPENSE

	Three Months Ended June 30,			Six Months Ended June 30,		
$000s	2023	2022	Change	2023	2022	Change
Foreign exchange loss (gain)	54	(206)		79	(99)	
Other (income) expense	(111)	14		(232)	30	
	(57)	(192)	-70%	(153)	(69)	122%

During the three months ended June 30, 2023, other income decreased by $135,000 or 70% from income of $192,000 in the prior period to income of $57,000 in the current period.

During the six months ended June 30, 2023, other income increased by $84,000 or 122% from income of $69,000 in the prior period to income of $153,000 in the current 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 quarters due to fluctuations between the US dollar and the Canadian dollar. During the second quarter of 2022 the US dollar strengthened significantly against the Canadian dollar resulting in foreign exchange gains in both the comparative three month and six month periods. In the first and second quarter of 2023 the US dollar weakened against the Canadian dollar resulting in foreign exchange losses in both the current three and six month periods.

Other (income) expense went from an overall expense in the comparative three and six month periods to overall income in the current three and six month periods primarily due to a significant increase in interest income from carrying a higher cash and cash equivalents balance and higher interest rates compared to the prior periods. This interest income was offset slightly by other expenses which include some residual plant relocation costs, including storage and additional rent related to undeveloped bays in the current facility for which construction has not yet commenced.

DEPRECIATION AND AMORTIZATION EXPENSE

In the six month period ended June 30, 2023, the total depreciation and amortization expense was $971,000 which was slightly higher than an expense of $939,000 in the comparative period in 2022. The expense was allocated as follows: $192,000 to general and administration expense (2022 - $166,000), $595,000 to inventory (2022 *Restated* - $425,000), and $184,000 (2022 *Restated* – $348,000) to cost of goods sold.

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	2023		2022 *(Restated)*				2021 *(Restated)*	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues	1,869	3,495	3,322	3,845	5,500	6,172	3,562	4,523
Net (loss) income	(1,154)	(385)	(230)	1,010	1,805	1,813	734	1,025
Basic net (loss) income per common share	(0.015)	(0.005)	(0.003)	0.013	0.023	0.023	0.009	0.013
Diluted net (loss) income per common share	(0.015)	(0.005)	(0.003)	0.013	0.023	0.023	0.009	0.013

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

Significant New Accounting Standards

There were no new standards that became effective for periods beginning on or after January 1, 2023, that have a material impact on the Company's unaudited interim condensed consolidated financial statements for the period ended June 30, 2023.

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, 2023	December 31, 2022
Non-current assets	16,247	17,146
Current assets	18,235	20,588
Current liabilities	(810)	(2,100)
Total assets less current liabilities	33,672	35,634
Non-current liabilities	2,728	3,345
Shareholders' equity	30,944	32,289
Total capital employed	33,672	35,634

Non-current assets decreased by $899,000, primarily due to a depreciation provision of $970,000 and an amortization provision on licences of $1,000, which was offset by the acquisition of $72,000 of property and equipment.

Current assets decreased by $2,353,000 primarily due to a net decrease in cash for the six month period ending June 30, 2023 in the amount of $2,505,000, a decrease in trade and other receivables in the amount of $1,245,000, offset by an increase in inventories of $1,388,000, and an increase in prepaid expenses and deposits of $9,000.

Current liabilities decreased by $1,290,000 due to a decrease in accounts payable and accrued liabilities of $1,306,000 primarily related to the payment of significant accounts payable existing at December 31, 2022, offset partially by an increase in the current portion of lease liabilities of $16,000.

Non-current liabilities totaling $2,728,000 decreased by the amount of $617,000 primarily due to the ongoing repayment of lease liabilities and reallocation of current portion of the lease liabilities in the amount of $196,000 and the reduction of deferred tax liabilities of $421,000 on the Company’s income tax provision.

Shareholders’ equity of $30,944,000 at June 30, 2023 decreased by $1,345,000 from shareholders’ equity of $32,289,000 at December 31, 2022, primarily due to the recognition of a net loss of $1,539,000 for the six month period ended June 30, 2023, offset by the recognition of share-based payment compensation of $192,000 and the issuance of shares from the exercise of stock options of $2,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended June 30, 2023, and 2022.

	Six Months Ended June 30,	
	2023	2022
$000s		*Restated*
Sources of funds:		
Funds generated from operations adjusted for non-cash items	-	5,782
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	2	-
Share issuance	2	60
	4	5,842
Uses of funds:		
Funds used in operations adjusted for non-cash items	(731)	-
Purchase of property and equipment	(72)	(240)
Deposits relating to investing activities	(44)	-
Changes in non-cash working capital items relating to operating activities	(1,416)	(1,759)
Changes in non-cash accounts payable and accrued liabilities relating to investing activities	-	(48)
Interest paid	(66)	(65)
Repayment of lease liabilities	(180)	(143)
	(2,509)	(2,255)
Net change in cash flows	(2,505)	3,587

Net change in cash flow was a decrease of $2,505,000 during the six month period ended June 30, 2023, in comparison with an increase of $3,587,000 for the comparative period. Cash was used in operations in the amount of $2,146,000 (after adjustment for non-cash items and working capital items relating to operating activities) in the current period compared to cash being generated in the comparative period in the amount of $4,023,000. This was primarily due to a decrease in sales in the current period along with an increase in general and administration expenditures and increased in investment in research and development. This decrease in cash from operations was partially offset by lower spending on the purchase of property and equipment in the current period.

The Company has a positive working capital balance (defined as current assets less current liabilities) of $17,424,794 at June 30, 2023 (December 31, 2022, $18,487,442). The Company estimates that the cash available on hand 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, planned upscaling of a PGX pilot unit, 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, 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, 2023, were 78,293,177. In addition, 3,377,999 stock options as at August 27, 2023, were outstanding that are potentially convertible into an equal number of common shares at various prices.

GRANT FUNDING

During the year ended December 31, 2021, 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 $480,000 for costs incurred on the design of a pharmaceutical PGX processing unit, impregnation unit, and spray chamber unit for the Company's PGX Technology with the aim to boost the innovation capacity of the technology towards pharmaceutical applications. During the year ended December 31, 2021, the Company recognized $57,651 of funding which was recorded as a reduction of research and development expenses, of which $24,832 was included in other receivables at year-end. During the year ended December 31, 2022, the Company recognized $409,574 of funding which has been recorded as a reduction of research and development expenses, of which $22,293 has been included in other receivables at year-end. During the six month period ended June 30, 2023, the Company received a final payment of $3,655 which was recorded as a reduction of research and development expenses and the project was completed as at March 31, 2023.

Related Party Transactions

During the three and six month periods ended June 30, 2023, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $510,000 and $951,000 respectively (2022 – $376,000 and $638,000), share-based payments expense for key management personnel was $22,000 and $116,000 respectively (2022 - $24,000 and $37,000) and research and development expenditures paid to the Angiogenesis Foundation for which a director of the Company is the CEO of the Foundation were $101,000 and $205,000 respectively (2022 - $nil).

The amount payable to the Board of Directors at June 30, 2023, was $nil (2022 - $38,000).

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 PGX technology that would allow the development, production, and commercialization of powder formulations that could be used as active ingredients.

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

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

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

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

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

(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

While sales orders were lower during the first half of 2023 due to a re-organization resulting from the spin-off of the consumer division of one major customer, our business remains solid, and we look forward to a return of the re-ordering pattern from one of our major customers. We will continue to leverage on our base business to enable the development of new products and technologies like the planned Phase 1-2a clinical trial with Avenanthramides, the scale-up of the PGX Technology for the development of yeast beta glucan as an immune modulator and the commercial scale-up of a malting technology to enable the production and selling of enriched oat flour with high concentration of avenanthramides to serve some nutraceutical market segments. The Company expects to complete these projects using cash in hand in 2023 while continuing to assess different market initiatives to unlock value.

Financial Instruments

The Company has exposure to financial instrument risks and this section provides disclosures relating to the nature and extent of our exposure to risks arising from financial instruments and how we manage those risks.

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 92% of trade receivables are due from one distributor at June 30, 2023 (December 31, 2022 – 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, 2023 $	December 31, 2022 $
Not yet due	1,563,404	1,567,892
Less than 30 days past due	-	1,226,880
Less than 60 days past due, more than 30 days past due	-	25,528
More than 60 days past due	-	-
Total	1,563,404	2,820,300

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, 2023, and December 31, 2022, are not significant and have not been recognized.

Other receivables can represent amounts due for research program claims, government funding 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 counterparties.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $11,306,260 at June 30, 2023 (December 31, 2022 - $13,810,998) 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 is the contractual maturity of the Company's financial liabilities and obligations at June 30, 2023:

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	424,283	-	-	-	424,283

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, 2023.

	Carrying Amount (USD)	Foreign Exchange Risk (CDN)	
		-1%	+1%
		Net Income	Net Income
Financial assets			
Trade receivables	1,180,680	15,632	(15,632)
Financial liabilities			
Accounts payable and accrued liabilities	22,659	(301)	301
Total increase (decrease)		15,332	(15,332)

The carrying amount of trade receivables and accounts payable and accrued liabilities in USD represents the Company's exposure at June 30, 2023.

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.

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. The risks and uncertainties described in this MD&A are those we currently believe to be material, but they are not the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently deem immaterial, may also adversely affect our business. To the extent possible, we pursue and implement strategies to reduce or mitigate the risks associated with our business.

a) 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.

b) Customer reliance

The Company derives over 90% of our sales and related accounts receivable from one distribution partner, Symrise AG, and while we are continually seeking to expand our customer base, we expect this will continue for the foreseeable future. Our future success in our base business cosmeceuticals market is dependent upon the continued demand by this distributor and their underlying customers, and the expansion of our customer base. Any decline in or loss of demand from this distributor or their underlying customers may have a negative impact on our revenues, and an adverse impact on our business, financial condition, and results of operations.

c) Intellectual property

Ceapro's success will depend, in part, on its ability to obtain and maintain patents and trademarks and to secure and protect, trade secrets, proprietary technology and manufacturing processes and other intellectual property rights either developed internally or acquired, and to operate without infringing on the proprietary rights of others or have others infringe on its rights. Although Ceapro expends resources and efforts to patent its discoveries and innovations, there can be no assurance that patent applications will result in the issuance of patents or that any patents issued to Ceapro will provide it with adequate protection or any competitive advantages, or that such patents will not be successfully challenged by third parties. The Company cannot be assured competitors will not independently develop products similar to the Company's products designed to circumvent exclusive rights granted to the Company.

d) Licences

Ceapro has entered into limited life licence agreements for exclusive rights to new technologies. As part of the licence agreements the Company works to develop and scale up the new technologies with the goal to commercialize the technologies or products derived from the technologies. The development of these new technologies is a costly, complex, and time-consuming process, and the investment in this development often involves a prolonged time period until a return is achieved on the investment. The Company's ability to successfully develop and scale-up new technologies within the expiry periods of the licence agreements is dependent on a number of key factors such as hiring and retaining employees who have specialized knowledge and expertise pertaining to the development of the technologies, being able to access third party specialists, being able to source key equipment or supplies in a timely manner, and delays in research and development programs related to products derived from the technologies. Commercial success depends on many factors including the degree of innovation of the products developed, access to funding for scale-up opportunities, uncertainties inherent in the regulatory approval processes, delays in manufacturing or marketing arrangements, and sufficient support from strategic partners if applicable. Should the Company not be able to successfully develop and scale-up the technologies within the time frames of the licence agreements it could have an adverse impact on our business and operating results and the share price of our common shares may decline.

e) Research and development programs

Research and development programs may be regarded as uncertain, and the results obtained may not support the anticipated benefits. The development of new formulations, products and treatments may require substantial investment and may take a significant amount of time. Pre-clinical and clinical trial work will be necessary to complete before potential products could be determined to be safe and effective products and before we can obtain regulatory approvals for products to be approved for human use. We may set expectations for the timing of programs and the expected results of those programs throughout the different phases of development, such as for anticipated regulatory submission and approval dates of clinical studies, for the commencement and completion of research programs and clinical studies, for expected results, and for the potential timing of commercialization. However, the timing of these events can vary due to unanticipated delays, unsatisfactory research program or clinical trial results, the ability to manufacture the products at a reasonable cost, the ability to find appropriate partners for further commercialization, and to market successfully. At any stage, we may find it necessary to abandon the development of a potential new formulation, product and treatment and we may need to develop a new business strategy. This may have an adverse effect on our potential revenues and operating results.

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 and quality 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. Weather and other growing conditions can also impact crop quality and impact the Company's profitability. 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) 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.

i) Cyber security

The Company depends upon the reliability and security of our information technology systems in the normal course of operations. Ceapro is subject to a variety of information technology and systems risks including virus, cyber-attacks, security breach and destruction or interruption of information technology systems. Although the Company has controls and security measures in place that are designed to mitigate these risks, a breach of these measures could occur and result in a loss of material and confidential information and disruption to business activities.

j) 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.

k) 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 can cause the Company 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.

l) Financial risks

The Company is exposed to various financial risks including, credit risk, foreign currency risk, liquidity risk, and interest rate risk, each of which could have an adverse impact on our business, financial condition, results of operations and cash flows. These risks are further discussed in the Financial Instruments section of this MD&A.

m) Significant accounting estimates and assumptions

Ceapro's consolidated financial statements are prepared within a framework of IFRS. 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, inventory valuation, amortization of property and equipment, the recognition and valuation of tax liabilities and tax assets, provisions, the lease term and discount rate used to measure leases, and the assumptions used in determining share-based compensation. 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.

n) 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 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.

o) 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 employees, our operations, our suppliers, and our customers. In addition to the impact on operations, these same disruptions may also adversely affect our research and development partners, research institutions, and laboratories which can negatively impact and delay our research programs. While we would expect this to be temporary, there is uncertainty around the duration of this pandemic, especially considering the variants of the virus that have emerged, and its broader impact. The extent to which the current pandemic or future ones will impact the Company's results will depend on further developments which are highly uncertain and cannot be predicted with great certainty.

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.