Unaudited Condensed Consolidated Financial Statements for the Second Quarter Ended June 30, 2015

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

CEAPRO INC.

Consolidated Balance Sheets
Unaudited

	June 30, 2015	December 31, 2014
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	550,153	272,845
Trade receivables	819,146	423,567
Other receivables	22,099	210,904
Inventories (note 4)	1,055,749	679,265
Prepaid expenses and deposits	121,686	61,502
	2,568,833	1,648,083
Non-Current Assets		
Deposit	38,703	36,903
Licenses (note 5)	34,811	36,292
Property and equipment (note 6)	6,928,573	5,961,951
	7,002,087	6,035,146
TOTAL ASSETS	9,570,920	7,683,229
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	1,208,798	1,791,145
Deferred revenue	624,762	162,279
Current portion of long-term debt (note 7)	899,403	768,345
Current portion of employee future benefits obligation (note 9)	-	127,009
Current portion of CAAP loan (note 11)	77,858	72,942
Royalties interest payable	-	43,075
	2,810,821	2,964,795
Non-Current Liabilities		
Convertible debentures (note 8)	833,709	-
Long-term debt (note 7)	2,552,016	2,361,326
CAAP loan (note 11)	286,316	265,075
	3,672,041	2,626,401
Equity		
Share capital (note 10)	6,614,803	6,565,927
Equity component of convertible debentures (note 8)	106,200	-
Contributed surplus	884,568	507,505
Accumulated other comprehensive loss (note 9)	-	(16,916)
Deficit	(4,517,513)	(4,964,483)
	3,088,058	2,092,033
TOTAL LIABILITIES AND EQUITY	9,570,920	7,683,229

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

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

	Quarters Ended June 30, 2015	Quarters Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	$	$	$	$
Revenue (note 15)	2,439,366	2,431,736	4,153,851	4,386,083
Cost of goods sold	690,229	987,603	1,612,615	1,881,906
Gross margin	1,749,137	1,444,133	2,541,236	2,504,177
Research and product development	236,835	189,461	342,742	413,967
General and administration	629,225	461,808	1,431,158	884,067
Sales and marketing	3,506	5,500	6,673	6,667
Finance costs (note 14)	37,024	60,496	143,774	152,360
Income from operations	842,547	726,868	616,889	1,047,116
Other operating loss (note 13)	(184,823)	(96,902)	(189,253)	(239,721)
Income before tax	657,724	629,966	427,636	807,395
Income taxes				
Deferred tax recovery	-	-	36,250	-
Total comprehensive income for the period	657,724	629,966	463,886	807,395
Net income per common share (note 20):				
Basic	0.01	0.01	0.01	0.01
Diluted	0.01	0.01	0.01	0.01
Weighted average number of common shares outstanding (note 20):				
Basic	61,669,149	60,591,860	61,605,706	60,474,252
Diluted	65,843,789	60,940,811	65,298,020	61,110,510

See accompanying notes

CEAPRO INC.

Consolidated Statements of Changes in Equity

Unaudited

	Share Capital $	Contributed surplus $	Equity component of convertible debentures $	Deficit $	Accumulated other comprehensive loss $	Total Equity $
Balance December 31, 2014	6,565,927	507,505	-	(4,964,483)	(16,916)	2,092,033
Share-based payments	-	395,856	-	-	-	395,856
Stock options exercised	48,876	(18,793)	-	-	-	30,083
Convertible Debentures	-	-	106,200	-	-	106,200
Future benefit obligation (note 9)	-	-	-	(16,916)	16,916	-
Net income for the period	-	-	-	463,886	-	463,886
Balance June 30, 2015	6,614,803	884,568	106,200	(4,517,513)	-	3,088,058
Balance December 31, 2013	6,315,858	503,829	-	(6,558,278)	(16,916)	244,493
Share-based payments	-	67,646	-	-	-	67,646
Stock options exercised	213,282	(93,532)	-	-	-	119,750
Net income for the period	-	-	-	807,395	-	807,395
Balance June 30, 2014	6,529,140	477,943	-	(5,750,883)	(16,916)	1,239,284

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

	Six Months Ended June 30, 2015 $	2014 $
OPERATING ACTIVITIES		
Net income for the period	463,886	807,395
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Finance costs	25,815	114,976
Transaction costs	11,843	8,761
Depreciation and amortization	197,546	138,399
Unrealized foreign exchange (gain) loss on long-term debt	(10,718)	(2,143)
Loss on disposal of property and equipment	-	3,680
Loss on write off of licence	-	25,875
Accretion	56,116	28,623
Deferred tax recovery	(36,250)	-
Employee future benefits obligation	-	2,576
Share-based payments	395,856	67,646
Net income for the period adjusted for non-cash items	1,104,094	1,195,788
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(395,580)	(440,406)
Other receivables	188,805	27,493
Inventories	(376,484)	(299,645)
Prepaid expenses and deposits	(61,984)	115,836
Deferred revenue	462,483	(361,309)
Royalty liability accrued	-	6,535
Accounts payable and accrued liabilities	(582,346)	744,118
	(765,106)	(207,378)
Net income for the period adjusted for non-cash and working capital items	338,988	988,410
Interest paid	(105,751)	(69,502)
CASH GENERATED FROM (USED IN) OPERATIONS	233,237	918,908
INVESTING ACTIVITIES		
Purchase of property and equipment	(572,757)	(1,507,717)
Purchase of leasehold improvements	(589,649)	(1,588,668)
CASH USED BY INVESTING ACTIVITIES	(1,162,406)	(3,096,385)
FINANCING ACTIVITIES		
Long-term debt	715,000	1,071,678
Convertible debentures	960,000	-
Employee future benefits obligation repayment	(127,009)	(150,000)
Stock options exercised	30,083	119,750
Transaction costs	(28,802)	-
Repayment of long-term debt	(379,375)	(251,550)
Grant used for purchasing of leaseholds, property and equipment	79,655	211,155
Repayment of royalty financial liability	(43,075)	(68,085)
CASH GENERATED FROM FINANCING ACTIVITIES	1,206,477	932,948
Increase (decrease) in cash and cash equivalents	277,308	(1,244,529)
Cash and cash equivalents at beginning of the period	272,845	1,953,019
Cash and cash equivalents at end of the period	550,153	708,490

See accompanying notes

Cash and cash equivalents are comprised of $543,362 (2014 - $101,744) on deposit with financial institutions, $6,791 (2014 - $6,746) held in money market mutual funds, and $nil (2014 - $600,000) held in guaranted investment certificates.

1. NATURE OF BUSINESS OPERATIONS AND GOING CONCERN

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

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

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge liabilities in the normal course of operations. However, certain conditions may cast significant doubt upon the validity of this assumption. The Company is currently in progress to complete a new manufacturing facility which involves substantial capital expenditures for engineering and design, permitting, construction of leaseholds, equipment, as well as other related costs required to meet the strict requirements of major customers. The scope of the original planned manufacturing facility was redefined throughout fiscal 2014 to take advantage of new manufacturing process design opportunities that are expected to provide value to the Company and its shareholders in future years. As a result, the facility has not yet been completed and the overall planned investment for the first phase of the facility has been expanded and is still currently estimated at $12,200,000 of which the Company has completed and recorded approximately $7,700,000 at June 30, 2015. As a result of the increased scope of the project the Company had a working capital deficiency of $241,988 at June 30, 2015 and will require additional financing to complete the first phase of the manufacturing facility.

When a new manufacturing facility is brought into commercial production, there is always a risk as to the magnitude of investment of human and financial resources required for start-up and commissioning activities. While the Company intends to fully utilize its expertise, and has engaged qualified third parties to complete these activities and minimize risks, there is considerable risk inherent in these activities. Additional funds will be required to complete these essential activities.

During the six month period ended June 30, 2015, the Company entered into a new loan agreement that can be drawn to a maximum of $900,000. As at June 30, 2015, $715,000 of the loan has been received (see note 7). The remaining proceeds of $185,000 that can be drawn from this new financing will be used to address the working capital deficiency that exists at June 30, 2015 and towards completion of the Company's new manufacturing facility. However, the Company estimates that it will still require additional funds of approximately $3,700,000 to complete the first phase of the manufacturing facility.

The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company's operations. The Company's ability to continue as a going concern is dependent on obtaining additional financial capital, maintaining profitability, and generating consistent positive cash flow. Management is pursuing additional funding with long term partners, government programs, and other sources to fully fund its anticipated needs. There can be no assurance that the Company will be able to access capital when needed, achieve profitability, or generate positive cash flow.

These consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities and revenues and expenses and the balance sheet classification used if the Company were unable to continue operations. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of consolidated financial statements, including IFRS 34, “Interim Financial Reporting”. The accounting principles and methods of computation adopted in these financial statements are the same as those of the annual financial statements for the year ended December 31, 2014.

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, 2014.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on August 25, 2015.

b) Basis for Presentation

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc. and Ceapro USA Inc.

All intercompany accounts and transactions have been eliminated on consolidation.

3. CHANGES IN ACCOUNTING POLICIES

Future accounting policies not yet adopted

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

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

<u>IFRS 9 “Financial instruments” (2014)</u>

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

The Company’s management have not yet assessed the impact of IFRS 9 on these consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

<u>IFRS 15 “Revenue from Contracts with Customers”</u>

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS18 “Revenue”, IAS 11 “Construction contracts”, and several revenue related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2017. The Company’s management has not yet assessed the impact of IFRS 15 on these consolidated financial statements.

4. INVENTORIES

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

	June 30, 2015	December 31, 2014
	$	$
Raw materials	327,106	289,784
Work in progress	419,799	43,867
Finished goods	308,844	345,614
	1,055,749	679,265

Inventories expensed to cost of goods sold during the six month period ended June 30, 2015 are $1,576,082 (June 30, 2014 - $1,862,289).

5. LICENCES

During the year ended December 31, 2014 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. The agreement expires after a term of 20 years or after the expiration of the last patent obtained whichever event shall occur first. There is no initial licence fee but the Company is required to make royalty payments (see note 17 (d)).

During the year ended December 31, 2012 the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and commenced amortizing the licence over 15 years in April 2012. Amortization of $1,481 has been included in general and administration expense for the six month period ended June 30, 2015 (June 30, 2014 - $1,481) (see note 17(c)).

Cost of licences	$
Balance - December 31, 2014	44,439
Additions	-
Balance - June 30, 2015	44,439
Accumulated amortization	
Balance - December 31, 2014	8,147
Amortization	1,481
Balance - June 30, 2015	9,628
Net book value	
Balance - June 30, 2015	34,811
Balance - December 31, 2014	36,292

6. PROPERTY AND EQUIPMENT

	Equipment not available for use	Manufacturing Equipment	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Cost	$	$	$	$	$	$
December 31, 2014	1,715,775	3,685,245	305,446	400,296	2,598,604	8,705,366
additions	594,855	16,770	-	1,100	629,617	1,242,342
cost reduced by grant	(17,988)	(1,517)	-	-	(60,150)	(79,655)
disposal	-	-	-	-	-	-
June 30, 2015	2,292,642	3,700,498	305,446	401,396	3,168,071	9,868,053
Accumulated depreciation						
December 31, 2014	-	2,273,654	73,605	260,307	135,849	2,743,415
additions	-	120,749	23,110	20,456	31,750	196,065
disposal	-	-	-	-	-	-
June 30, 2015	-	2,394,403	96,715	280,763	167,599	2,939,480
Carrying value						
June 30, 2015	2,292,642	1,306,095	208,731	120,633	3,000,472	6,928,573
December 31, 2014	1,715,775	1,411,591	231,841	139,989	2,462,755	5,961,951

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold	Inventory	General and administration	Total
	$	$	$	$
Six Months Ended June 30, 2015	61,461	46,847	87,757	196,065
Six Months Ended June 30, 2014	90,256	22,996	22,541	135,793

Amortization of leasehold improvements for certain sections of the new manufacturing facility has commenced as these sections were completed and the Company moved partial operations to the new facility during the year ended December 31, 2014. The production section is not being amortized as the facility has not yet commenced manufacturing operations.

Included in the additions for equipment not available for use are capitalized borrowing costs of $39,968 (December 31, 2014 - $41,169) and capitalized employee benefits of $136,278 (December 31, 2014 - $182,316) arising directly from the construction of the new manufacturing equipment and production process. Included in leasehold improvement additions are capitalized borrowing costs of $39,968 (December 31, 2014 - $38,491) and capitalized employee benefits of $81,022 (December 31, 2014 - $55,324) arising directly from the construction of the new manufacturing facility. The borrowing costs have been capitalized at the rates of the specific borrowings ranging between 2.85% and 8%.

7. LONG-TERM DEBT

	June 30, 2015 $	December 31, 2014 $
Loan payable secured by a general security agreement, due January, 2018 (a).	492,597	582,693
Loan payable secured by certain intellectual property, due January, 2019 (b).	1,016,844	1,161,166
Loan payable secured by a general security agreement, due April, 2019 (c).	1,254,804	1,404,672
Loan payable secured by a forklift, due June, 2018 (d).	37,670	43,477
Loan payable secured by a general security agreement, due July, 2020 (e).	715,000	-
Transaction costs	(65,496)	(62,337)
	3,451,419	3,129,671
Less current portion	899,403	768,345
	2,552,016	2,361,326

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

Period Ended June 30, 2015	25,815
Period Ended June 30, 2014	60,772

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

(b) During the year ended December 31, 2013, the Company entered into a new loan agreement with its distribution partner, Symrise, which is secured by certain intellectual property and is due January 2, 2019. The loan, for 1 million Euros, is repayable over 5 years at an interest rate of 2.85%. Monthly blended principal and interest payments in the amount of 17,902 Euro commenced February 1, 2014. Based on the exchange rate at June 30, 2015, the monthly payment is $24,904 (December 31, 2014 - $25,131) in Canadian dollars.

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

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

(e) During the six month period ended June 30, 2015 the Company entered into a new loan agreement with AFSC. The loan can be drawn to a maximum of $900,000, bears interest at the rate of 3.84% and will mature on July 1, 2020. The loan has interest only payments until July 1, 2015 after which it will be repayable by monthly blended principal and interest payments in the amount of $16,483. As at June 30, 2015 the Company has received draws on the loan for aggregate proceeds of $715,000. The loan is secured by a general security agreement covering all present and after acquired personal property subject by a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 7(b).

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

8. CONVERTIBLE DEBENTURES

During the six months ended June 30, 2015, the Company issued an aggregate of $960,000 of unsecured convertible debentures that mature on December 31, 2016.

The debentures bear interest at 8% per annum with interest payable on June 30 and December 31 of each year. Pursuant to the terms of the debentures, the Company will have the option to satisfy interest payments through the issuance of common shares based on the volume weighted average trading price of the common shares for the 20 trading days upon which the common shares traded on the TSX-V immediately prior to the interest obligation date.

The debentures are convertible into common shares of the Company at any time at a price of $0.64 per common share at the option of the holder and may be redeemed at the option of the Company upon giving notice of 60 days. The debentures and any common shares issued upon conversion of the convertible debentures are subject to a four-month hold period from the date of issue.

The convertible debentures have been separated into liability and equity components using the effective interest rate method for accounting purposes. The fair value of the liability component at the time of issue was calculated using discounted cash flows for the convertible debenture assuming an effective interest rate of 17%. The effective interest rate was based on the estimated rate for a debenture without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible debentures and the fair value of the liability component. The liability component is subsequently measured at amortized cost using the effective interest rate method and will accrete up to the principal balance at maturity. The accretion will be presented as a finance cost. Interest expense will be capitalized as a borrowing cost until the new manufacturing facility is completed, thereafter, interest will be presented as a finance cost.

Transaction costs of $17,091 were incurred on the issuance of the convertible debentures and have been recorded against the liability and equity components. The transaction costs allocated to the liability component will be amortized at the effective interest rate over the term of the convertible debentures and will be presented as a finance cost.

The following table summarizes the accounting for the convertible debentures:

	Liability Component $	Equity Component $
Opening balance at December 31, 2014	-	-
Fair value of components at date of issue	815,000	145,000
Deferred income tax liability	-	(36,250)
Transaction costs	(14,541)	(2,550)
Amortization of transaction costs	3,291	-
Accretion of discount on the convertible debentures	29,959	-
Ending balance at June 30, 2015	833,709	106,200

9. EMPLOYEE FUTURE BENEFITS OBLIGATION

The Company had an unfunded, non-registered, non-indexed defined benefit pension plan for a former officer. The pension agreement was revised during the year ended December 31, 2013 and the total amount of $277,009 was agreed to be paid to settle the obligation in the entirety as per the following installments:

January 1, 2014	$50,000
July 1, 2014	$100,000
January 1, 2015	$127,009
Total:	$277,009

The final payment of $127,009 was paid during the six months ended June 30, 2015. As the pension obligation is now completely extinguished, the actuarial losses of $16,916 that had arisen from previous changes in the discount rate used to measure the obligation, have been reclassified on the Statement of Changes in Equity from accumulated other comprehensive loss to deficit.

	Six Months Ended June 30, 2015	Year Ended December 31, 2014
Accrued benefit obligation	$	$
Unfunded balance, beginning of period	127,009	272,982
Interest costs on accrued benefit obligation	-	4,027
Benefit repayment	(127,009)	(150,000)
	-	127,009
Less current portion	-	127,009
	-	-

	Six Months Ended June 30, 2015	Year Ended December 31, 2014
Elements of defined benefit costs recognized in the period	$	$
Interest cost on accrued benefit obligation	**-**	4,027

Defined benefit costs have been presented under research and product development expenses in the consolidated statement of net income (loss) for the period.

10. SHARE CAPITAL

a. Authorized

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

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

b. Issued - Class A common shares

	Six Months Ended June 30, 2015		Year Ended December 31, 2014	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance at beginning of the period	61,423,948	6,565,927	60,278,948	6,315,858
Stock options exercised	263,333	48,876	1,145,000	250,069
Balance at end of the period	61,687,281	6,614,803	61,423,948	6,565,927

c. Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	June 30, 2015 Number of Options	December 31, 2014 Number of Options
0.34	0.36	2025	9.8	150,000	-
0.47	0.50	2025	9.6	100,000	-
0.60	0.64	2025	9.5	900,000	-
0.37	0.27	2024	9.4	150,000	150,000
0.13	0.14	2024	8.9	250,000	250,000
0.08	0.10	2024	8.5	810,000	810,000
0.05	0.10	2023	7.5	846,667	1,065,000
0.09	0.10	2022	7.0	300,000	300,000
0.11	0.15	2016	1.0	200,000	275,000
0.06	0.10	2015	0.2	270,000	270,000
			7.2	3,976,667	3,120,000

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

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the six month period ended June 30, 2015 the Company granted 1,190,000 (June 30, 2014 – 1,180,000) 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 2015 was 1.72% (2014 – 2.22%), the weighted average expected volatility was 117% (2014 - 114%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2014 – 10 years), forfeiture rate was 0% (2014 - 0%), the weighted average share price was $0.59 (2014 – $0.10), the weighted average exercise price was $0.59 (2014 – $0.11), and the expected dividends were nil (2014 - nil). The weighted average grant date fair value of options granted in the six month period ended June 30, 2015 was $0.56 (2014 - $0.09) per option.

11. CAAP LOAN

The balance of repayable contribution is derived as follows:

	Six Months Ended, June 30, 2015	Year Ended December 31, 2014
	$	$
Opening balance	338,017	363,471
Repayment	-	(83,884)
Accretion of CAAP loan	26,157	58,430
	364,174	338,017
Less current portion	77,858	72,942
	286,316	265,075

The principal repayment required for amounts received under the program is $83,884 annually from 2014 through 2021.

12. RELATED PARTY TRANSACTIONS

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

	Six Months Ended June 30,	
	2015	2014
	$	$
Royalties earned by employees and directors	-	16,947
Amounts payable to employees and directors included in royalties payable	-	9,133
Convertible debenture held by a company controlled by an officer	25,000	-
Interest earned on a convertible debenture held by a company controlled by an officer	805	-
Key management salaries, short-term benefits, consulting fees and director fees	266,136	254,900
Key management personnel share based payments	219,932	26,901
Amount payable to directors	69,204	28,750

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

13. OTHER OPERATING LOSS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	$	$	$	$
Foreign exchange loss (income)	102,075	(40,837)	25,633	19,802
Loss on write off of licence	-	25,875	-	25,875
Loss on disposal of property and equipment	-	-	-	3,680
Other income	(5,557)	(3,092)	(15,417)	(2,833)
Plant relocation costs	88,305	114,956	179,037	193,197
	184,823	96,902	189,253	239,721

14. FINANCE COSTS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	$	$	$	$
Interest on long-term debt	14,588	39,296	25,815	60,772
Interest on convertible debentures	(13,778)	-	-	-
Transaction costs	6,322	4,043	11,843	8,761
Royalties	-	-	50,000	47,500
Accretion of CAAP loan	13,322	14,454	26,157	28,623
Accretion of convertible debentures	16,570	-	29,959	-
Interest on royalty financial liability	-	2,703	-	6,704
	37,024	60,496	143,774	152,360

15. SEGMENTED INFORMATION

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	$	$	$	$
United States	1,493,146	2,040,732	2,774,294	3,633,688
Germany	837,585	323,516	1,245,672	652,904
Other	108,635	66,825	132,578	98,828
Canada	-	663	1,307	663
	2,439,366	2,431,736	4,153,851	4,386,083

16. EMPLOYEE BENEFITS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	$	$	$	$
Employee benefits	743,876	624,182	1,613,962	1,185,604

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

17. CONTINGENCIES AND COMMITMENTS

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

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

c) During the year ended December 31, 2012 the Company entered into a new 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 agreement is an executory contract and therefore all royalty payments under the contract will be recognized as they become due.

(d) During the year ended December 31, 2014 the Company entered into a new 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.

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 remain in force.

The agreement is an executory contract and therefore all royalty payments under the agreement will be recognized as they become due.

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

18. FINANCIAL INSTRUMENTS

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

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

The estimated fair value of the Company's financial instruments approximates the amount for which the financial instruments could currently be exchanged in an arms-length transaction between willing parties who are under no compulsion to act.

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

The fair value of the convertible debentures is estimated to approximate its carrying value as the interest rate used to discount the present value of cash flows for the liability component of the convertible debentures does not differ significantly from current interest rates applicable to similar non-convertible borrowing arrangements (level 2).

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

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

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

	June 30, 2015		December 31, 2014	
	Book value	Fair value	Book value	Fair value
Loans and receivables:				
Cash and cash equivalents	$ 550,153	$ 550,153	$ 272,845	$ 272,845
Trade and other receivables	841,245	841,245	634,471	634,471
Other financial liabilities:				
Accounts payable and accrued liabilities	$ 1,208,798	$ 1,208,798	$ 1,791,145	$ 1,791,145
Long-term debt	3,451,419	3,451,419	3,129,671	3,129,671
Convertible debentures	833,709	833,709	-	-
CAAP loan	364,174	364,174	338,017	338,017
Royalties interest payable	-	-	43,075	43,075

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

a) Credit risk:

Trade and other receivables

The Company makes sales to customers that are well-established within their respective industries. Based on previous experience the counterparties had zero default rates and management views this risk as minimal. Approximately 96% of trade receivables are due from two customers at June 30, 2015 (December 31, 2014 – 95% from two customers) and all trade receivables at June 30, 2015 and December 31, 2014 are current. These main customers are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $550,153 at June 30, 2015 (December 31, 2014 - $272,845) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

There are no past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's trade and other receivables, 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.

The Company regularly reviews its cash availability and whenever conditions permit; the excess cash is deposited in short-term interest bearing instruments to generate revenue while maintaining liquidity. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

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

	within 1 year	1 to 3 years	3 - 5 years	over 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	1,208,798	-	-	-	1,208,798
Long-term debt	1,008,389	1,959,453	780,370	19,260	3,767,472
Convertible debentures	76,906	1,038,610	-	-	1,115,516
CAAP loan	83,883	167,766	167,766	167,766	587,181
Total	2,377,976	3,165,829	948,136	187,026	6,678,967

c) Market risk:

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

1. Foreign currency risk

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

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	656,683	6,567	(6,567)
Financial Liabilities			
Accounts payable and accrued liabilities	162,098	(1,621)	1,621
Total increase (decrease)		4,946	(4,946)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial Liabilities			
Long-term debt	730,964	(7,310)	7,310
Total (decrease) increase		(7,310)	7,310

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at June 30, 2015.

2. Interest rate risk.

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

19. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the period ended June 30, 2015.

20. INCOME PER COMMON SHARE

	Quarters Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income for the period for basic and diluted earnings per share calculation	$657,724	$629,966	$463,886	$807,395
Weighted average number of common shares outstanding	61,669,149	60,591,860	61,605,706	60,474,252
Effect of dilutive stock options	2,674,640	348,951	2,192,314	636,258
Effect of dilutive convertible debentures	1,500,000	-	1,500,000	-
Diluted weighted average number of common shares	65,843,789	60,940,811	65,298,020	61,110,510
Income per share - basic	$0.01	$0.01	$0.01	$0.01
Income per share - diluted	$0.01	$0.01	$0.01	$0.01

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

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

Interest on the convertible debentures is capitalized as a borrowing cost to the new manufacturing facility under construction and therefore, for both the six month period and quarter ended June 30, 2015, the dilutive impact from the potential conversion of the convertible debentures is limited only to an increase in the diluted weighted average number of common shares outstanding.