CEAPRO™
Nature Enhancing Life

Q3 2013

Unaudited Condensed Consolidated Financial Statements
for the Third Quarter Ended September 30, 2013

The MD&A provides commentary on the results of operations for the periods ended September 30, 2013 and 2012, the financial position as at September 30, 2013, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at November 8, 2013. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at September 30, 2013, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2012 and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2012 which are prepared in accordance with International Financial Reporting Standards (IFRS). All comparative percentages are between the periods ended September 30, 2013 and 2012 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 November 8, 2013, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

Vision, Core Business, and Strategy

Ceapro is incorporated under the Canada Business Corporations Act, and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc. are incorporated under the Alberta Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Ceapro is a growth stage biotechnology company. Our primary business activities relate to the development and commercialization of natural products for personal care, cosmetic, human, and animal health industries using proprietary technology, natural, renewable resources and developing innovation.

Our products include:

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

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

- *CeaProve*®, a diabetes test meal to screen pre-diabetes and to confirm diabetes diagnosis;

- *A drug delivery* platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging;

- An extension t*o the active ingredients* product range offering, through new plant extract products;

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

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

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 technology 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, manufacturing technologies, and target markets.

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

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

- Adding value to all aspects of our business;

- Enhancing the health of humans and animals;

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

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

- Developing personnel through guidance, opportunities, and encouragement.

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

Risks and Uncertainties

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

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

a) Credit risk:

Accounts receivable

The Company makes sales to customers that are well-established and well-financed within their respective industries. Based on previous experience the counterparties have had very low default rates and management views this risk as minimal. Approximately 90% of accounts receivable are due from two customers at September 30, 2013 and all accounts receivable are current. These main customers present good credit quality and historically have a high quality credit rating.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $402,519 at September 30, 2013 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.

The Company received $750,000 under a capital expenditure grant agreement and has presented this amount as deferred revenue and considers it restricted cash as it can be spent only for qualified expenditures. During the period ended September 30, 2013 the Company has expended $708,777 of this grant (December 31, 2012 - $41,223). The balance of this grant is $nil at September 30, 2013.

There are no past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company’s accounts receivable, cash and cash equivalents, and restricted 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. Under the renewed agreement with AFSC the long-term debt matures in January 2018. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable 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 accounts receivable 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.

	0 - 1 year $	1 - 3 years $	4 - 7 years $	8-12 years	Total $
Accounts payable and accrued liabilities	1,063,226	-	-	-	1,063,226
Long-term debt, including interest	200,082	600,246	66,694	-	867,022
Royalties interest payable	34,205	-	-	-	34,205
Royalty financial liability	126,695	29,588	-	-	156,283
Repayable CAAP funding	-	226,485	226,485	150,990	603,960
Total	1,424,208	856,319	293,179	150,990	2,724,696

c) Market risk

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

1. Foreign currency risk

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

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

	Carrying Amount (USD)	-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	283,088	2,831	(2,831)
Financial Liabilities			
Accounts payable and accrued liabilities	326,072	(3,261)	3,261
Total increase (decrease)		(430)	430

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at September 30, 2013.

2. Interest rate risk.

The Company has minimal interest rate risk because its long-term debt is a fixed rate of 3.71%.

3. Share price risk.

a) 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.

b) 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.

4. People and process risk.

A variety of factors will affect Ceapro's future growth and operating results, including the strength and demand for the Company's products, the extent of competition in our markets, the ability to recruit and retain qualified personnel, and the ability to raise capital.

Ceapro's consolidated financial statements are prepared within a framework of IFRS selected by management and approved by the Board of Directors. The assets, liabilities, revenues, and expenses reported in the consolidated financial statements depend to varying degrees on estimates made by management. An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain and if different estimates that could have been used would have a material impact. The significant areas requiring the use of management estimates relate to provisions made for inventory valuation, amortization of property and equipment, tax liabilities and tax assets, normal provisions, the assumptions used in determining share-based compensation, the interest rates used in determining the employee future benefits obligation and the estimated sales projections to value the royalty financial liability. 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.

i) Loss of key personnel:

Ceapro relies on certain key employees whose skills and knowledge are critical to maintaining the Company's success. Ceapro has procedures in place to identify and retain key employees and always attempts to be competitive with compensation and working conditions. The current robust economy in Alberta does increase these risks.

ii) Interruption of raw material supply:

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

iii) 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.

iv) 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. Significant investments are being made to ensure compliance with the continually evolving regulatory environment.

Newly adopted accounting policies

Employee future benefits

The Company accrues its obligations under an employee defined retirement benefit plan and related costs. The cost of retirement benefits earned by employees is determined using the projected unit credit method and management's best estimate of expected retirement ages of employees. The discount rate used is based on the interest rates for high quality corporate bonds. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur. The Company previously recognized actuarial gains and losses in profit or loss. Under the new standard actuarial gains and losses will be recognized in other comprehensive income or loss. The Company adopted IAS 19 – Employee Benefits ("IAS 19") amendment retrospectively. The impact of adopting this section was not significant and as such retrospective adjustment to actuarial gains and losses were not recorded.

Joint ventures

The Company has adopted IFRS 11 – Joint Arrangements ("IFRS 11") beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Fair value measurement

The Company adopted IFRS 13 – Fair value Measurement ("IFRS 13") beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Financial statements presentation

The Company adopted amendments to IAS 1 – Presentation of Financial Statements ("IAS 1") that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Future accounting policies not yet adopted

Financial instruments

The IASB intends to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 - Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39.

In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. The effective date of IFRS 9 is for annual periods beginning on or after January 1, 2015 (with earlier application permitted). The Company has not yet assessed the impact that this new standard is likely to have on its consolidated financial statements.

Results of Operations

Periods Ended September 30, 2013 and 2012

CONSOLIDATED INCOME STATEMENT

	Three Months Ended September 30,				Nine Months Ended September 30,			
$000s except per share data	**2013**	**%**	2012	%	2013	%	2012	%
Total revenues	**1,997**	**100%**	**1,283**	**100%**	**5,022**	**100%**	**3,963**	**100%**
Cost of goods sold	1,155	58%	609	47%	2,551	51%	1,947	49%
Gross margin	**842**	**42%**	**674**	**53%**	**2,471**	**49%**	**2,016**	**51%**
Research and product development	203	10%	297	23%	568	11%	727	18%
General and administration	393	20%	431	34%	1,266	25%	1,313	33%
Sales and marketing	5	0%	33	3%	74	1%	159	4%
Finance costs	42	2%	27	2%	117	2%	82	2%
Income (loss) from operations	**198**	**10%**	**(114)**	**-9%**	**446**	**9%**	**(265)**	**-7%**
Other operating income (loss)	(75)	-4%	(23)	-2%	(166)	-3%	(36)	-1%
Net income (loss)	**123**	**6%**	**(137)**	**-11%**	**280**	**6%**	**(301)**	**-8%**
Basic net income (loss) per common share	0.002		(0.002)		0.005		(0.005)	
Diluted net income (loss) per common share	0.002		(0.002)		0.005		(0.005)	

During the third quarter of 2013 the Company's revenue increased by 56% or $714,000 to $1,997,000 from $1,283,000 in 2012 and cost of goods sold increased by 90% or $546,000 to $1,155,000 from $609,000 in comparison with the same period of 2012. These changes resulted in an increase in the amount of gross margin by 25% or $168,000 to $842,000 in 2013 from $674,000 in 2012.

There was an Income from operations of $198,000 in the third quarter of 2013 in comparison with a loss of $114,000 in the same period of 2013.

There was a net income in the quarter ended September 30, 2013 of $123,000 in comparison with net loss in the same period of 2012 of $137,000. The Company commenced paying rent on its new manufacturing facility in April 2013 which has been classified as other operating loss as the facility is not yet operational.

During the first nine months of 2013 the Company's revenue increased by 27% or $1,059,000 to $5,022,000 from $3,963,000 in 2012 and cost of goods sold increased by 31% or $604,000 to $2,551,000 from $1,947,000 in comparison with the same period of 2012. These changes resulted in an increase in the amount of gross margin by 23% or $455,000 to $2,471,000 in 2013 from $2,016,000 in 2012.

Income from operations has increased by $711,000 to an income of $4416000 in 2013 from a loss of $265,000 incurred during the first nine months of 2012.

There was a net income in the first nine months of 2013 of $280,000 in comparison with a net loss of $301,000 in the same period of 2012 mostly due to an increase in gross margin contribution and decreased research and product development, general and administration, and sales and marketing expenses, offset by higher other expenses, mainly rent on the new facility.

Revenue

	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
$000s	2013	2012		2013	2012	
Total revenues	1,997	1,283	56%	5,022	3,963	27%

PRODUCT SALES

Sales in the third quarter of 2013 increased by $714,000 or 56% primarily as a result of higher sales volumes of avenanthramides and oat oil.

Sales in the first nine months of 2013 increased by $1,059,000 or 27% primarily as a result of higher sales volumes of avenanthramides, oat oil and veterinary shampoo.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
$000s	2013	2012		2013	2012	
Sales	1,997	1,283	56%	5,022	3,963	27%
Cost of goods sold	1,155	609	90%	2,551	1,947	31%
Gross margin	842	674	25%	2,471	2,016	23%
Gross margin %	42%	53%		49%	51%	

Cost of goods sold is comprised of the direct raw materials required for the specific formulation of products, as well as direct labour, quality assurance and control, packaging, transportation costs, plant costs, and amortization on plant and equipment assets. Aside from labour, rent, quality control related expenses, overhead, and property plant and equipment amortization, the majority of costs are variable in relation to the volume of product produced or shipped.

During the third quarter of 2013 the cost of goods sold increased by $546,000 or 90%, from $609,000 in 2012 to $1,155,000 in 2013. The gross margin in the third quarter of 2013 is higher by 25% mostly due to higher sales. The gross margin percentage decreased by 11% from 53% in the third quarter of 2012 to 42% in the same period of 2013 due to natural feedstock variations and a product sales mix weighted toward lower margin products.

During the first nine months of 2013 the cost of goods sold rose by $604,000 or 31%, from $1,947,000 in 2012 to $2,551,000 in 2013. The gross margin in the first nine months of 2013 is higher by 23% due to higher sales. The gross margin percentage decreased by 2% from 51% in the first nine months of 2012 to 49% in the same period of 2013 due to higher sales volume of a lower margin product.

RESEARCH AND PRODUCT DEVELOPMENT

	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
$000s	2013	2012		2013	2012	
Salaries and benefits	171	167		498	488	
Regulatory and patents	61	33		224	74	
Other	(37)	84		(169)	147	
	195	284	-31%	553	709	-22%
Product development - Ceaprove®	8	13	-38%	15	18	-17%
Total research and product development expenditures	203	297	-32%	568	727	-22%

During the third quarter of 2013 research and development expenses before *CeaProve*® development decreased by 31% or $89,000 in comparison with the same period of 2012 due to grant revenue recognition of discounted CAAP funding and grant contributions from Alberta Innovates Technology Futures and a federal government program offset by increased expenses for regulatory and patents of $28,000. The large increase in patent cost was due to the issue of key beta glucan patents in several European countries. These patent costs are expected to provide significant value to Ceapro shareholders in the future.

CeaProve® costs have decreased from $13,000 to $8,000 as a result of lower costs for patents maintenance.

During the first nine months of 2013 research and development expenses before *CeaProve*® development have decreased by 22% due to grant revenue recognition of discounted CAAP funding and grant contributions from Alberta Innovates Technology Futures and a federal government program offset by a significant increase in expenses for regulatory and patents of $150,000.

CeaProve® costs have decreased by 17% from $18,000 to $15,000 as a result of costs for patents maintenance.

GENERAL AND ADMINISTRATION

$000s	Three Months Ended September 30, 2013	2012	Change	Nine Months Ended September 30, 2013	2012	Change
Salaries and benefits	146	117		467	346	
Consulting	68	102		203	274	
Board of Directors compensation	32	43		108	122	
Insurance	20	23		87	87	
Accounting and Audit fees	18	17		53	51	
Rent	25	26		66	72	
Public Company Costs	16	5		47	69	
Travel	27	23		92	77	
Depreciation	12	12		31	33	
Legal	2	40		36	103	
Other	27	23		76	79	
Total general and administration expenses	393	431	-9%	1,266	1,313	-4%

General and administration expense for the third quarter of 2013 decreased by $38,000 or 9% from $431,000 to $393,000 primarily due to lower consulting costs due to plant related feasibility studies conducted in 2012 but not in 2013 and to lower legal expenses mainly related to AVAC litigation. This was offset by increased expenses for salaries and benefits of $29,000 mainly as a result of new positions related to new business development and engineering activities, public company costs of $11,000, insurance of $3,000 and travel of $4,000 due to increased business development activities.

During the first nine months of 2013 general and administration expenses decreased by $47,000 or 4% mostly as a result of decreased expenses for consulting, legal, rent, public company and legal cost offset by increased expenses for salaries and benefits and travel due to the same reasons as for the third quarter.

SALES AND MARKETING

$000s	Three Months Ended September 30, 2013	2012	Change	Nine Months Ended September 30, 2013	2012	Change
Travel	4	17		24	47	
Consulting	-	11		-	85	
Courses, Conferences & Advertising	5	2		46	14	
Other	(4)	3		4	13	
Total sales and marketing	5	33	-85%	74	159	-54%

Sales and marketing expenses in the third quarter of 2013 decreased by $28,000 or 85% in comparison with the same period of 2012 due to lower travel costs for cosmetic conferences and lower consulting costs.

The Company anticipates continued participation and expenditures at targeted conferences. Our goal is to expand our business with existing customers and to explore potential opportunities with new customers.

The first nine months of 2013 showed a decrease in expenditures of $85,000 or 54% versus 2012 due to a completion of a marketing strategy and brand evaluation project in the first half of 2012.

FINANCE COSTS

$000s	Three Months Ended September 30, 2013	2012	Change	Nine Months Ended September 30, 2013	2012	Change
Interest on royalty financial liability	6	9		20	28	
Interest on long-term loan	8	13		27	42	
New loan application and guarantee fees	17	-		17	-	
Interest on royalties to Guelph & AAFC	-	-		23	-	
Accretion of CAAP loan	11	5		30	12	
	42	27	56%	117	82	43%

As at December 31, 2012, royalty investors received royalties equal to 2.285% (2011 – 2.285%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products and *CeaProve*®, to a maximum of two times the amount invested. AVAC Ltd. receives royalties of up to 2.5% to 5% of revenues from eligible product sales, to a maximum of one and a half to two times the amount invested. Royalty expenses will vary directly with fluctuations in eligible product sales, royalty, license and product development fees, product sales mix, and any new royalty interest offerings that may be completed.

The Company entered into Canadian Agricultural Adaptation Program (“CAAP”) repayable contribution agreements for total possible funding of $1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily decommitted $668,557 as a result of lower anticipated project expenditures to the maximum possible funding under the agreement of $671,068. The end date for project expenditures and start date for repayments were also extended one year to September 30, 2013 and to December 31, 2014 respectively. As the contributions are non-interest bearing, the fair value at inception is estimated as the present value of the principal payments required, discounted using the prevailing market rates of interest for a similar instrument estimated to be 15% per annum. The difference between the fair value of the contributions and the cash received is accounted for as a government grant. The first payment was received in the first quarter of 2011. Accretion of the CAAP loan was $30,000 in the nine month period ended September 30, 2013 (September 30, 2012 – $12,000).

OTHER OPERATING (INCOME) LOSS

$000s	Three Months Ended September 30, 2013	2012	Change	Nine Months Ended September 30, 2013	2012	Change
Foreign exchange loss (income)	(4)	25		10	38	
Other loss (income)	79	(2)		157	(2)	
	75	23	226%	167	36	364%

Other loss for the third quarter of 2013 includes the plant relocation cost for the new facility in the amount of $162,000.

Foreign exchange income in the quarter ended September 30, 2013 was $4,000 in comparison with a loss of $25,000 in 2012 due to the strengthening of the US dollar versus the Canadian dollar during the quarter and nine months ended September 30, 2013 in comparison with the same period of 2012.

DEPRECIATION AND AMORTIZATION EXPENSES

In the first nine months of 2013 the total depreciation and amortization of $226,000 (2012 - $211,000) was allocated as follows: $31,000 to general and administration expense (2012 - $33,000), $18,000 to inventory (2012 - $41,000), and $177,000 (2012 - $137,000) to cost of goods sold. The amount of depreciation and amortization in the first nine months of 2013 was higher than in the same period of 2012 due to the commencement of amortization of newly acquired manufacturing equipment.

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	2013			2012				2011
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues	1,997	1,012	2,012	1,202	1,283	1,490	1,190	1,552
Net income (loss)	123	(252)	408	(237)	(137)	(160)	(4)	252
Basic net income (loss) per common share	0.002	(0.004)	0.007	(0.004)	(0.002)	(0.003)	(0.000)	0.005
Diluted net income (loss) per common share	0.002	(0.004)	0.007	(0.004)	(0.002)	(0.003)	(0.000)	0.005

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

Liquidity and Capital Resources

CAPITAL EMPLOYED

$000s	September 30, 2013	December 31, 2012
Non-current assets	1,403	1,508
Current assets	1,839	2,378
Current liabilities	(1,817)	(2,566)
Total assets less current liabilities	1,425	1,320
Non-current liabilities	1,086	1,306
Shareholders' equity	339	14
Total capital employed	1,425	1,320

Non-current assets decreased by $105,000 due to a depreciation provision of $226,000 offset by the acquisition of $121,000 of property and equipment.

Current assets decreased by $539,000. Inventories were lower by $334,000; accounts receivables and prepaid expenses were higher by $375,000. Cash increased by $129,000 and restricted cash and cash equivalent decreased in the amount of $709,000.

Current liabilities totaling $1,817,000 decreased by the net amount of $749,000 mostly due to increased sales that resulted in decreased deferred revenue of $703,000, restricted cash and cash equivalent received in 2013 under a capital expenditure grant agreement and recorded as deferred revenue expended in the amount of $709,000, partially offset by the reclassification of employee future benefit obligation of $145,000,

current portion of long-term debt increased of $5,000, trade payables and accrued liabilities increased of $485,000, and royalty interest obligations increased by $28,000.
Non-current liabilities totaling $1,086,000 decreased by the net amount of $220,000 due to long-term debt reclassification to current liabilities of $5,000 and repayment of $126,000, royalty financial liability decreased by $93,000, accrued employee future benefit obligation decreased of $91,000 and a discounted CAAP loan increased in the amount of $95,000.

Equity of $339,000 at September 30, 2013 increased by $325000 from equity of $14,000 at December 31, 2012 due to net income for the period ended September 30, 2013 of $280,000 and recognized share-based compensation of $62,000 offset by accumulated other comprehensive loss of $17,000.

NET DEBT

$000s	September 30, 2013	December 31, 2012
Cash and cash equivalents	402	273
Current financial liabilities	1,385	867
Non-current financial liabilities	960	1,089
Total financial liabilities	2,345	1,956
NET DEBT	1,943	1,683

**Current and non-current financial liabilities include accounts payable and accrued liabilities, current and non-current portion of long term debt, royalties interest payable, current and non-current portion of royalty financial liability, and a CAAP loan.*

The Company's net debt increased by $260,000 due to an increase of cash and cash equivalent in the amount of $129,000, an accounts payable and accrued liabilities increase of $485,000, decreased royalty related obligations of $65,000, long-term debt repaid in the amount of $126,000, and an increased CAAP loan discounted amount recognized of $95,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000s	2013	2012	2013	2012
Sources of funds:				
Funds generated from operations (cash flow)	280	(71)	656	(60)
Changes in non-cash working capital items	(68)	306	(282)	241
Restricted cash received ot utilized	440	-	709	-
Grant used for capital assets	440	-	709	-
Repayable CAAP Funding	(21)	76	130	183
	1,071	311	1,922	364
Uses of funds:				
Purchase of property and equipment	(59)	(28)	(121)	(133)
Purchase of property and equipment for the new manufacturing facility	(360)	-	(629)	-
Purchase of prepaid deposits from grant	(80)		(80)	
Purchase of license	-	-	-	(44)
Deferred revenue reduction	(440)	-	(709)	-
Interest paid	(20)	(27)	(68)	(52)
Repayment of royalty financial liability	(26)	(16)	(60)	(45)
Repayable research funding repayment	-	(15)	-	(43)
Repayment of long term debt	(42)	(39)	(126)	(115)
	(1,027)	(125)	(1,793)	(432)
Net change in cash flows	44	186	129	(68)

Net change in cash flow increased by $197,000 during the first nine months of 2013 in comparison with the same period of 2012.
The Company estimates that the cash flows generated by its operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, capital maintenance investment, and service debt needs.

The Company relies upon revenues generated from the sale of active ingredients, the proceeds of public and private offerings of equity securities and debentures, income offerings, and government funding programs to support the Company's operations.

Total common shares issued and outstanding as at November 8, 2013 were 60,278,948 (November 19, 2012 – 60,278,948). In addition, 3,450,000 stock options as at November 8, 2013 (November 19, 2012 – 2,940,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Ceapro's working capital was $22,000 at September 30, 2013, which was increased by $211,000 from working deficiency of $189,000 at December 31, 2012.

To meet future requirements, Ceapro intends to raise additional cash through some or all of the following methods: public or private equity or debt financing, income offerings, capital leases, collaborative and licensing agreements, and government funding programs. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all.

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.

GOVERNMENT FUNDING

During the year ended December 31, 2010, the Company was approved for non-repayable funding in the amount of $124,000 from Alberta Innovates Technology Futures (AITF). During the first nine months of 2013, the Company received $9,167 (2012 - $32,083), which was recorded as a reduction of research and product development expenses. This program is now completed.

During the year ended December 31, 2012, the Company was approved for a second agreement for non-repayable funding in the amount of $124,000 from AITF. During the first nine months of 2013, the Company received $52,833 which was recorded as a reduction of research and project development expenses. The Company anticipates receiving additional funding of $9,167 in 2013 and $41,250 in 2014 under this agreement.

The Company was approved for non-repayable funding to a maximum of $21,250 of eligible expenditures under the Novel Crops Initiative program from the Prince Edward Island Department of Agriculture. The Company recorded the amount of $5,000 as a reduction of research and product development expenditures under this program in the period ended September 30, 2013 (2012 - $5,000). The Company anticipates no further amount under this program.

In 2011, the Company was approved for non-repayable grant funding from Innovation PEI for a maximum of $100,000. During the year ended December 31, 2011, the Company received $30,000 and recognized $19,500 against eligible expenses and $10,500 as deferred revenue. During the year ended December 31, 2012, the balance of $70,000 potentially receivable was decommitted and the Company recognized $10,500 as deferred revenue. No further amount is expected.

The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to $671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended by one year to September 30, 2013. All amounts claimed under the program are interest-free repayable over eight years beginning in 2014. The Company has received or recognized as receivable funding of $603,961 to date under this program. A maximum funding amount of $67,107 is anticipated to be received in the balance of 2013.

During the year ended December 31, 2011, the Company commenced a research and development project agreement. Under this project, the Company paid cash of $56,177 in 2011 and made additional payments of $28,236 in 2012. The other party to the research and development project agreement made an in-kind contribution to the project of $42,262. The agreement was completed in 2012.

During the year ended December 31, 2011, the Company entered into a Contribution Agreement with Alberta Innovates Bio Solutions for a non-repayable grant contribution totaling up to $1,600,000 towards the construction of a new bio-processing facility, subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received $750,000 in 2011 classified as restricted cash and cash equivalents and deferred revenue, and anticipates additional amounts will be received as follows: $690,000 in 2013 and $160,000 in 2014. An amount of $750,000 has been recorded as a reduction of capitalized expenditures.

During the year ended December 31, 2012, the Company entered into a contribution agreement with an agency of the federal government to provide funding of up to $345,000 for certain research activities. During the period ended September 30, 2013, the Company received or recorded as receivable the amount of $269,440. The Company estimates it will receive a further amount of $75,560 in 2013.

During the second quarter of 2013, the Company entered into a research and development funding agreement with an agricultural producer group. Under the agreement, a maximum of $97,000 may be claimed in total. At September 30, 2013, a total of $81,620 was received or receivable under this agreement and claimed as a reduction of research and development expenses. The Company anticipates receiving an additional $15,380 under this agreement. This agreement is non-repayable.

During the third quarter of 2013, the Company entered into an Agri-Processing Automation and Efficiency Grant Agreement with Alberta Agriculture and Rural Development to provide non-repayable funding for its new manufacturing facility to a maximum amount of $673,000. During the third quarter the company received $76,885 which has been recorded as follows: $45,865 as a reduction of the cost of prepaid equipment deposits, $1,864 as a reduction of cost of goods sold, and $29,165 as a reduction of research and development expense. The Company estimates it will receive an additional $100,000 in 2013 and up to $ 496,115 in 2014.

The Company is currently reviewing additional options available to raise capital.

Related Party Transactions

During the period ended September 30, 2013, $19,000 (2012 - $15,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at September 30, 2013, $6,000 (2012 - $4,000) of royalties were payable to employees and directors.

During the period ended September 30, 2013, the Company paid key management salaries, short-term benefits, consulting fees and director fees totaling $511,000 (2012 – $473,000) and key management personnel received share-based payments of $36,000 (2012 - $29,000).

As at September 30, 2013, consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities were $nil (2012 - $21,000). Amount payable to directors was $29,000 (2012 - $29,000).

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

Commitments and Contingencies

a) During the year ended December 31, 2011, the Company and its wholly owned subsidiary, Ceapro Veterinary Products Inc. 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. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of 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. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

c) During the year ended December 31, 2008, the Company entered into a licensing agreement with the University of Guelph for an exclusive variety of a mint plant. During the year ended December 31, 2011, the Company has entered into a new licensing agreement with the University of Guelph for additional market rights for the exclusive variety of a mint plant.

In accordance with the new agreement, there are future minimum royalty prepayments of $10,000 per annum starting in 2012 for royalty payments which will be calculated as 5% of net sales from products derived from the mint plants. The minimum royalty payments are creditable against royalties in years where royalties are due. 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, 2012 the Company has entered into a new license 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 license agreement remains in force.

The agreement is an executory contract and therefore all royalty payments under the contract 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.

Outlook

We are very pleased with the 2013 year to date results showing an increase of revenues of 26.7% compared to the first nine months of 2012 and showing a net profit of $280,000 compared to a net loss of $301,000 for the same period in 2012. This result is even more impressive considering that we are in a year where we are building a new facility which requires significant investment and resources.

The successful implementation of our upcoming state of the art facility remains our top priority for 2013. While activities in the third quarter progressed as scheduled, we expect that required fine tuning and full commissioning will extend the move to our new site into Q1, 2014. This new facility will house our offices, laboratories and manufacturing activities and will allow for the incorporation of new technologies as well as for exploiting contract services opportunities that are arising. A comprehensive plan has been put in place to secure a smooth transition while maintaining and developing our business in a focused and prioritized manner. Discussions to complete the financing of this project are progressing very well. This new facility will allow us to reach our vision to be recognized as the Canadian leader in botanical actives and a center of excellence in bioprocessing by 2015.

Our research and development continued to be focussed on our value drivers, avenanthramides and beta glucan. Following the successful development of dry formulations of both value drivers, we are pursuing a research program to assess their suitability to be developed as active ingredients to be included in oral formulations that should enable Ceapro to transit to new large markets like functional foods/drinks and nutraceuticals. Results from this research program on formulations are expected by year end. Should these results be favourable, it is expected that pre-clinical research program(s) could be initiated in the first half of 2014. Transition to the functional food and/or nutraceutical sectors with these oral formulations would be a significant opportunity for Ceapro.

Additional Information

Additional information relating to Ceapro Inc., including a copy of the Company's Annual Report and Proxy Circular, can be found on SEDAR at www.sedar.com.

Unaudited Condensed Consolidated Financial Statements for the Third Quarter Ended September 30, 2013

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 management.

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

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

	September 30, 2013	December 31, 2012
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	402,519	273,106
Restricted cash and cash equivalents	-	708,777
Accounts receivable	494,963	453,188
Inventories (note 4)	455,628	790,057
Prepaid expenses and deposits	486,215	152,778
	1,839,325	2,377,906
Non-Current Assets		
Licenses (note 5)	68,120	73,717
Property and equipment (note 6)	1,334,520	1,434,345
	1,402,640	1,508,062
TOTAL ASSETS	3,241,965	3,885,968
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	1,063,226	578,216
Current portion of deferred revenue	286,962	1,699,110
Current portion of long-term debt	173,930	168,637
Current portion of employee future benefits obligation (note 7)	145,137	-
Royalties interest payable	34,205	25,037
Current portion of royalty financial liability	113,865	95,378
	1,817,325	2,566,378
Non-Current Liabilities		
Royalty financial liability	17,579	109,931
Employee future benefits obligation (note 7)	126,281	217,219
Long-term debt	626,949	757,898
CAAP loan (note 9)	315,482	220,978
	1,086,291	1,306,026
Equity		
Share capital (note 8b)	6,315,858	6,315,858
Contributed surplus	493,854	431,792
Accumulated other comprehensive loss	(16,916)	-
Deficit	(6,454,447)	(6,734,086)
	338,349	13,564
TOTAL LIABILITIES AND EQUITY	3,241,965	3,885,968

See accompanying notes

CEAPRO INC.

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

Unaudited

	Quarters Ended September 30, 2013	Quarters Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	$	$	$	$
Revenue	1,997,398	1,283,167	5,021,999	3,962,811
Cost of goods sold	1,155,535	609,261	2,551,124	1,947,172
Gross margin	841,863	673,906	2,470,875	2,015,639
Research and product development	203,191	297,087	567,640	726,701
General and administration	393,163	431,064	1,266,149	1,312,557
Sales and marketing	4,850	32,649	73,773	159,083
Finance costs (note 12)	42,361	27,172	117,004	81,834
Income (loss) from operations	198,298	(114,066)	446,309	(264,536)
Other operating loss (note 11)	(75,115)	(22,494)	(166,670)	(36,086)
Net income (loss) for the period	123,183	(136,560)	279,639	(300,622)
Other comprehensive loss				
Actuarial loss on employee future benefit obligation (note 7)	-	-	(16,916)	-
Total comprehensive income (loss) for the period	123,183	(136,560)	262,723	(300,622)
Net income (loss) per common share (note 18):				
Basic	0.002	(0.00)	0.005	(0.00)
Diluted	0.00	(0.00)	0.00	(0.00)
Weighted average number of common shares outstanding	60,278,948	60,278,948	60,278,948	60,278,948

See accompanying notes

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

	Share Capital $	Contributed surplus $	Deficit $	Accumulated other comprehensive loss $	Equity $
Balance December 31, 2012	6,315,858	431,792	(6,734,086)	-	13,564
Share-based payments	-	62,062	-	-	62,062
Net income for the period	-	-	279,639	-	279,639
Other comprehensive loss (actuarial loss) (note 7)	-	-	-	(16,916)	(16,916)
Balance September 30, 2013	6,315,858	493,854	(6,454,447)	(16,916)	338,349
Balance December 31, 2011	6,315,858	397,631	(6,195,733)	-	517,756
Share-based payments	-	29,126	-	-	29,126
Net loss for the period	-	-	(300,622)	-	(300,622)
Balance September 30, 2012	6,315,858	426,757	(6,496,355)	-	246,260

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

	Nine Months Ended September 30, 2013 $	2012 $
OPERATING ACTIVITIES		
Net income (loss) for the period	279,639	(300,622)
Adjustments to reconcile net income (loss) to cash and cash equivalents provided by operating activities		
Finance costs	86,576	81,834
Depreciation and amortization	226,003	210,677
Accretion of CAAP loan	30,428	12,120
Grant revenue recognized	(66,313)	(98,110)
Extinguishment of the original liabilities	-	110,414
Recognition new liabilities	-	(127,214)
Employee future benefits obligation	37,283	22,236
Share-based payments	62,062	29,126
Net income (loss) for the period adjusted for non-cash items	655,678	(59,539)
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Accounts receivable	(41,775)	211,896
Inventories	334,429	(209,499)
Prepaid expenses and deposits	(333,437)	(22,752)
Deferred revenue	(703,371)	248,566
Accounts payable and accrued liabilities	462,272	12,883
	(281,882)	241,094
	373,796	181,555
Interest paid	(68,136)	(52,285)
CASH GENERATED FROM OPERATIONS	305,660	129,270
INVESTING ACTIVITIES		
Purchase of property and equipment	(120,581)	(132,815)
Purchase of property and equipment for the new manufacturing facility	(629,113)	-
Purchase of prepaid deposits from grant	(79,664)	
Grant used for purchasing of property and equipment and prepaid deposits	708,777	-
Purchase of licenses	-	(44,439)
	(120,581)	(177,254)
FINANCING ACTIVITIES		
Repayment of long-term debt	(125,656)	(115,071)
Repayable CAAP Funding	130,388	182,938
Deferred revenue	(708,777)	-
Restricted cash and cash equivalents	708,777	-
Repayable research funding repayment	-	(42,921)
Repayment of royalty financial liability	(60,398)	(45,473)
	(55,666)	(20,527)
Increase (decrease) in cash and cash equivalents	129,413	(68,511)
Cash and cash equivalents at beginning of period	273,106	592,259
Cash and cash equivalents at end of period	402,519	523,748

See accompanying notes

Cash and cash equivalents are comprised of $396,020 (September 30, 2012 - $260,583) on deposit with financial institutions and $6,499 (September 30 , 2012 - $263,165) held in money market mutual funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012.

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. 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 Suite 4174 Enterprise Square, 10230 Jasper Avenue, Edmonton, AB T5J 4P6.

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 doubt upon the validity of this assumption. Since inception, the Company has accumulated net losses, generated inconsistent operating cash flow and has not yet achieved consistent profitability. During the nine months ended September 30, 2013 the Company recorded a net income of $279,639 and as of that date had accumulated a deficit of $6,454,447.

In 2013 the Company will require additional funds, in excess of current committed funding, to construct leasehold improvements and purchase equipment for a new manufacturing facility to execute its business plan. The current total estimated financial commitments are $5,000,000 and additionally, future operating lease commitments have been made in support of the new manufacturing facility. As at September 30, 2013, the Company has cash and cash equivalents of $nil restricted for development of the new facility and commitments for an additional $950,000, $690,000 of which has been received subsequent to September 30, 2013. The Company anticipates that it will require additional funds in an amount currently estimated at $2,900,000 to complete the project. The Company is in advanced discussions for the completion of additional debt funding which will provide sufficient funding for completion of the manufacturing facility. The Company also expects to receive a contribution estimated at $400,000 from a government program.

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, achieving 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. ACCOUNTING PRINCIPLES FOR INTERIM FINANCIAL STATEMENTS

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, 2012.

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, 2012.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on November 8, 2013.

Basis for Presentation

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

The interim condensed 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

Newly adopted accounting policies

Employee future benefits

The Company accrues its obligations under an employee defined retirement benefit plan and related costs. The cost of retirement benefits earned by employees is determined using the projected unit credit method and management's best estimate of expected retirement ages of employees. The discount rate used is based on the interest rates for high quality corporate bonds. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur. The Company previously recognized actuarial gains and losses in profit or loss. Under the new standard actuarial gains and losses will be recognized in other comprehensive income or loss. The Company adopted IAS 19 – Employee Benefits (“IAS 19”) amendment retrospectively. The impact of adopting this section was not significant and as such retrospective adjustment to actuarial gains and losses were not recorded.

Joint ventures

The Company has adopted IFRS 11 – Joint Arrangements (“IFRS 11”) beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Fair value measurement

The Company adopted IFRS 13 – Fair value Measurement (“IFRS 13”) beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Financial statements presentation

The Company adopted amendments to IAS 1 – Presentation of Financial Statements (“IAS 1”) that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Future accounting policies not yet adopted

Financial instruments

The IASB intends to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 - Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39.

In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. The effective date of IFRS 9 is for annual periods beginning on or after January 1, 2015 (with earlier application permitted). The Company has not yet assessed the impact that this new standard is likely to have on its consolidated financial statements.

4. INVENTORIES

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

	September 30, 2013 $	December 31, 2012 $
Raw materials	207,143	258,439
Work in progress	135,210	113,399
Finished goods	113,275	418,219
	455,628	790,057

Inventories expensed to cost of goods sold during the nine months ended September 30, 2013 are $2,518,723 (September 30, 2012 - $1,900,880).

5. LICENSES

During the year ended December 31, 2012 the Company entered into a new license 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 will amortize the license over 15 years commencing in April 2012. Amortization of $2,222 has been included in general and administration for the period ended September 30, 2013 (September 30, 2012 - $1,481) (see note 15(d)).

During the year ended December 31, 2011, the Company entered into a new licensing agreement with the University of Guelph for an exclusive variety of a mint plant. This agreement replaced the agreement the Company entered during the year ended December 31, 2008. The Company paid a licensing fee of $30,000 in 2008 and $15,000 in 2011 and will amortize the total license over 10 years being the term of the amended licensing agreement. Amortization of $3,375 has been included in general and administration for the period ended September 30, 2013 (September 30, 2012 - $3,375) (see note 15(c)).

Cost of Licenses	$
Balance - December 31, 2012	89,439
Additions	-
Balance - September 30, 2013	89,439
Accumulated amortization	
Balance - December 31, 2012	15,722
Amortization	5,597
Balance - September 30, 2013	21,319
Net book value	
Balance - September 30, 2013	68,120
Balance - December 31, 2012	73,717

6. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	New plant $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
December 31, 2012	24,370	-	3,127,569	80,034	294,902	120,364	3,647,239
additions	3,569	629,113	106,283	2,066	8,663	-	749,694
cost reduced by grant	-	(629,113)	-	-	-	-	(629,113)
September 30, 2013	27,939	-	3,233,852	82,100	303,565	120,364	3,767,820
Accumulated depreciation							
December 31, 2012	-	-	1,800,959	65,534	226,037	120,364	2,212,894
depreciation	-	-	201,323	2,313	16,770	-	220,406
September 30, 2013	-	-	2,002,282	67,847	242,807	120,364	2,433,300
Carrying value							
September 30, 2013	27,939	-	1,231,570	14,253	60,758	-	1,334,520
December 31, 2012	24,370	-	1,326,610	14,500	68,865	-	1,434,345

Depreciation expense allocation for the following periods:

	Cost of goods sold $	Inventory $	G&A $	Total $
Period ended September 30, 2013	177,405	17,606	25,395	220,406
Period ended September 30, 2012	137,329	40,588	27,904	205,821

7. EMPLOYEE FUTURE BENEFITS OBLIGATION

Accrued benefit obligation	**Nine Months Ended September 30, 2013** $	Year Ended December 31, 2012 $
Unfunded balance, beginning of year	**217,219**	187,302
Current service cost	**18,301**	21,606
Loss on curtailment	**14,815**	-
Interest costs on accrued benefit obligation	**4,167**	8,311
Actuarial losses	**16,916**	-
	271,418	217,219

Elements of defined benefit costs recognized in the period	**Nine Months Ended September 30, 2013** $	Year Ended December 31, 2012 $
Current service cost	**18,301**	21,606
Loss on curtailment	**14,815**	-
Interest cost on accrued benefit obligation	**4,167**	8,311
	37,283	29,917

As a result of an amendment to the agreement, the Company recorded a loss on curtailment of $14,815. The present value of the installments at September 30, 2013 was $271,418 and no further expenses under current service costs will be incurred as a result of this amendment.

As per the revised agreement the total amount of $277,009 will be paid as per the following installments:

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

Defined benefit costs have been presented under research and product development expenses in the consolidated statements of net income (loss) for the period ended September 30, 2013.

8. 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

	Nine Months Ended September 30, 2013		Year Ended December 31, 2012	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of the period	**60,278,948**	**6,315,858**	60,278,948	6,315,858
Share issued during the period	**-**	**-**	-	-
Balance at end of the period	**60,278,948**	**6,315,858**	60,278,948	6,315,858

c. Stock options outstanding are as follows:

Fair Value dates	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	**September 30, 2013 Number of Options**	December 31, 2012 Number of Options
0.05	0.10	2023	9.3	**1,320,000**	**-**
0.09	0.10	2022	8.8	**300,000**	300,000
0.11	0.15	2016	2.8	**400,000**	400,000
0.06	0.10	2015	1.9	**530,000**	530,000
0.10	0.13	2014	0.8	**900,000**	900,000
0.08	0.12	2013	-	**-**	600,000
0.15	0.25	2013	-	**-**	210,000
			5.1	**3,450,000**	**2,940,000**

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 period ended September 30, 2013 the Company granted 1,400,000 (December 31, 2012 – 300,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock, life of the options and forfeiture rate. The weighted average risk-free rate used in 2013 was 1.62% (2012 - 1.51%), the weighted average expected volatility was 111% (2012 - 111%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2012 – 10 years), forfeiture rate was 0% (2012 - 0%), the weighted average share price was $0.06 (2012 – $0.10), the weighted average exercise price was $0.10 (2012 – $0.10), and the expected dividends were nil (2012 - nil). The weighted average grant date fair value of options granted in the period ended September 30, 2013 were $0.05 (2012 - $0.09) per option.

9. CAAP LOAN

The balance of repayable contribution is derived as follows:

	Nine months Ended September 30, 2013 $	Year Ended December 31, 2012 $
Opening balance	220,978	57,432
Funding received or receivable	130,388	350,492
Grant revenue recognised	(66,313)	(188,312)
Extinguishment of the original liabilities	-	(119,772)
Recognition new liabilities	-	102,972
Accretion of CAAP loan	30,428	18,166
	315,482	220,978

The principal repayment required for amounts received or receivable from inception to September 30, 2013 is $75,495 annually from 2014 through 2021.

10. RELATED PARTY TRANSACTIONS

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

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	$	$
Royalties earned by employees and directors	18,922	14,850
Amounts payable to employees and directors included in royalties payable	6,497	4,347
Key management salaries, short-term benefits, consulting fees and director fees	510,675	472,801
Key management personnel share based payments	35,537	28,663
Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities	-	21,000
Amount payable to directors	28,750	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.

11. OTHER OPERATING LOSS (INCOME)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	$	$	$	$
Foreign exchange loss (income)	(4,351)	24,835	9,935	38,278
Other loss (income)	79,466	(2,341)	156,735	(2,192)
	75,115	22,494	166,670	36,086

Other loss for the period ended September 30, 2013 includes plant relocation cost, for the new facility in the amount of $161,597.

12. FINANCE COSTS

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	$	$	$	$
Interest on royalty financial liability	5,902	8,665	19,949	28,325
Interest on long-term loan	7,563	13,283	26,657	41,389
Finance fees	17,470	-	17,470	-
Royalties to University of Guelph&AAFC	-	-	22,500	-
Accretion of CAAP loan	11,426	5,224	30,428	12,120
	42,361	27,172	117,004	81,834

13. 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	$	$	$	$
United States	1,646,961	991,105	4,003,049	3,014,319
Germany	318,826	279,358	824,738	841,872
Other	28,925	-	179,040	40,608
Canada	2,686	12,704	15,172	66,012
	1,997,398	1,283,167	5,021,999	3,962,811

14. EMPLOYEE BENEFITS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	$	$	$	$
Employee benefits	575,695	535,854	1,727,686	1,583,922

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

15. 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. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of 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. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

c) During the year ended December 31, 2008, the Company entered into licensing agreement with the University of Guelph for an exclusive variety of a mint plant. During the year ended December 31, 2011, the Company has entered into a new licensing agreement with the University of Guelph for additional market rights for the exclusive variety of a mint plant.

In accordance with the new agreement, there are future minimum royalty prepayments of $10,000 per annum starting in 2012 for royalty payments which will be calculated as 5% of net sales from products derived from the mint plants. The minimum royalty payments are creditable against royalties in years where royalties are due. 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, 2012 the Company entered into a new license 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 license agreement remains in force.

The agreement is an executory contract and therefore all royalty payments under the contract 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.

16. FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, 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 rate does not differ significantly from current interest rates for similar types of borrowing arrangements.

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

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

The royalty financial liability was estimated using a discount rate that results from the estimated future repayment of that obligation. As there has been no significant change in estimated future repayments, and as the estimated discount rate also approximates the Company’s estimated cost of capital for similar borrowing arrangements, management believes the carrying amount of this obligation does not differ significantly from its fair value.

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

a) Credit risk:

Accounts receivable

The Company makes sales to customers that are well-established and well-financed within their respective industries. Based on previous experience the counterparties had zero default rates and management views this risk as minimal. Approximately 90% of accounts receivable are due from two customers at September 30, 2013 and all accounts receivable are current. These main customers present good credit quality and historically have a high quality credit rating.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $402,519 at September 30, 2013 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.

The Company received $750,000 under a capital expenditure grant agreement and has presented this amount as deferred revenue and considers it restricted cash as it can be spent only for qualified expenditures. During the period ended September 30, 2013 the Company has expended $708,777 of this grant (December 31, 2012 - $41,223). The balance of this grant was $nil at September 30, 2013.

There are no past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's accounts receivable, cash and cash equivalents and restricted 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. Under the renewed agreement the long-term debt matures in January 2018. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable 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 accounts receivable 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.

	0 - 1 year $	1 - 3 years $	4 - 7 years $	8-12 years	Total $
Accounts payable and accrued	1,063,226	-	-	-	1,063,226
Long-term debt, including interest	200,082	600,246	66,694	-	867,022
Royalties interest payable	34,205	-	-	-	34,205
Royalty financial liability	126,695	29,588	-	-	156,283
Repayable CAAP funding	-	226,485	226,485	150,990	603,960
Total	1,424,208	856,319	293,179	150,990	2,724,696

c) Market risk:

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

1. Foreign currency risk

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

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	283,088	2,831	(2,831)
Financial Liabilities			
Accounts payable and accrued liabilities	326,072	(3,261)	3,261
Total increase (decrease)		(430)	430

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at September 30, 2013.

2. Interest rate risk.

The Company has minimal interest rate risk because its long-term debt is a fixed rate of 3.71%.

17. 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 remains unchanged from the year ended December 31, 2012.

18. INCOME (LOSS) PER COMMON SHARE

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income (loss) for the period for basic and diluted earnings per share calculation	$123,183	($136,560)	$279,639	($300,622)
Weighted average number of shares outstanding	60,278,948	60,278,948	60,278,948	60,278,948
Diluted shares outstanding	60,278,948	60,278,948	60,278,948	60,278,948
(Loss) income per share - basic	$0.00	($0.00)	$0.00	($0.00)
(Loss) income per share - diluted	$0.00	($0.00)	$0.00	($0.00)

For the period ended September 30, 2013, the Company’s 3,450,000 stock options outstanding have not been included in the diluted income per share calculation because the options’ exercise prices were greater than the average market price of the common shares during the period.

19. SUBSEQUENT EVENTS

Subsequent to end of the quarter, the Company received $690,000 as a second tranche of a grant funding agreement from Alberta Innovates Bio Solutions. The total funding received under this agreement is $1,440,000 out of the $1,600,000 agreement commitment.

The MD&A provides commentary on the results of operations for the periods ended September 30, 2013 and 2012, the financial position as at September 30, 2013, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at November 8, 2013. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at September 30, 2013, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2012 and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2012 which are prepared in accordance with International Financial Reporting Standards (IFRS). All comparative percentages are between the periods ended September 30, 2013 and 2012 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 November 8, 2013, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

Vision, Core Business, and Strategy

Ceapro is incorporated under the Canada Business Corporations Act, and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc. are incorporated under the Alberta Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Ceapro is a growth stage biotechnology company. Our primary business activities relate to the development and commercialization of natural products for personal care, cosmetic, human, and animal health industries using proprietary technology, natural, renewable resources and developing innovation.

Our products include:

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

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

- *CeaProve®*, a diabetes test meal to screen pre-diabetes and to confirm diabetes diagnosis;

- *A drug delivery* platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging;

- An extension t*o the active ingredients* product range offering, through new plant extract products;

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

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

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 technology 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, manufacturing technologies, and target markets.

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

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

- Adding value to all aspects of our business;

- Enhancing the health of humans and animals;

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

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

- Developing personnel through guidance, opportunities, and encouragement.

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

Risks and Uncertainties

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

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

a) Credit risk:

Accounts receivable

The Company makes sales to customers that are well-established and well-financed within their respective industries. Based on previous experience the counterparties have had very low default rates and management views this risk as minimal. Approximately 90% of accounts receivable are due from two customers at September 30, 2013 and all accounts receivable are current. These main customers present good credit quality and historically have a high quality credit rating.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $402,519 at September 30, 2013 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.

The Company received $750,000 under a capital expenditure grant agreement and has presented this amount as deferred revenue and considers it restricted cash as it can be spent only for qualified expenditures. During the period ended September 30, 2013 the Company has expended $708,777 of this grant (December 31, 2012 - $41,223). The balance of this grant is $nil at September 30, 2013.

There are no past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's accounts receivable, cash and cash equivalents, and restricted 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. Under the renewed agreement with AFSC the long-term debt matures in January 2018. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable 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 accounts receivable 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.

	0 - 1 year $	1 - 3 years $	4 - 7 years $	8-12 years	Total $
Accounts payable and accrued liabilities	1,063,226	-	-	-	1,063,226
Long-term debt, including interest	200,082	600,246	66,694	-	867,022
Royalties interest payable	34,205	-	-	-	34,205
Royalty financial liability	126,695	29,588	-	-	156,283
Repayable CAAP funding	-	226,485	226,485	150,990	603,960
Total	1,424,208	856,319	293,179	150,990	2,724,696

c) Market risk

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

1. Foreign currency risk

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

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

	Carrying Amount (USD)	-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	283,088	2,831	(2,831)
Financial Liabilities			
Accounts payable and accrued liabilities	326,072	(3,261)	3,261
Total increase (decrease)		(430)	430

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at September 30, 2013.

2. Interest rate risk.

The Company has minimal interest rate risk because its long-term debt is a fixed rate of 3.71%.

3. Share price risk.

a) 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.

b) 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.

4. People and process risk.

A variety of factors will affect Ceapro's future growth and operating results, including the strength and demand for the Company's products, the extent of competition in our markets, the ability to recruit and retain qualified personnel, and the ability to raise capital.

Ceapro's consolidated financial statements are prepared within a framework of IFRS selected by management and approved by the Board of Directors. The assets, liabilities, revenues, and expenses reported in the consolidated financial statements depend to varying degrees on estimates made by management. An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain and if different estimates that could have been used would have a material impact. The significant areas requiring the use of management estimates relate to provisions made for inventory valuation, amortization of property and equipment, tax liabilities and tax assets, normal provisions, the assumptions used in determining share-based compensation, the interest rates used in determining the employee future benefits obligation and the estimated sales projections to value the royalty financial liability. 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.

i) Loss of key personnel:

Ceapro relies on certain key employees whose skills and knowledge are critical to maintaining the Company's success. Ceapro has procedures in place to identify and retain key employees and always attempts to be competitive with compensation and working conditions. The current robust economy in Alberta does increase these risks.

ii) Interruption of raw material supply:

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

iii) 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.

iv) 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. Significant investments are being made to ensure compliance with the continually evolving regulatory environment.

Newly adopted accounting policies

Employee future benefits

The Company accrues its obligations under an employee defined retirement benefit plan and related costs. The cost of retirement benefits earned by employees is determined using the projected unit credit method and management's best estimate of expected retirement ages of employees. The discount rate used is based on the interest rates for high quality corporate bonds. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur. The Company previously recognized actuarial gains and losses in profit or loss. Under the new standard actuarial gains and losses will be recognized in other comprehensive income or loss. The Company adopted IAS 19 – Employee Benefits ("IAS 19") amendment retrospectively. The impact of adopting this section was not significant and as such retrospective adjustment to actuarial gains and losses were not recorded.

Joint ventures

The Company has adopted IFRS 11 – Joint Arrangements ("IFRS 11") beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Fair value measurement

The Company adopted IFRS 13 – Fair value Measurement ("IFRS 13") beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Financial statements presentation

The Company adopted amendments to IAS 1 – Presentation of Financial Statements ("IAS 1") that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Future accounting policies not yet adopted

Financial instruments

The IASB intends to replace IAS 39 - Financial Instruments: Recognition and Measurement (“IAS 39”) in its entirety with IFRS 9 - Financial Instruments (“IFRS 9”) in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39.

In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the company’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. The effective date of IFRS 9 is for annual periods beginning on or after January 1, 2015 (with earlier application permitted). The Company has not yet assessed the impact that this new standard is likely to have on its consolidated financial statements.

Results of Operations

Periods Ended September 30, 2013 and 2012

CONSOLIDATED INCOME STATEMENT

	Three Months Ended September 30,				Nine Months Ended September 30,			
$000s except per share data	**2013**	**%**	2012	%	2013	%	2012	%
Total revenues	**1,997**	**100%**	**1,283**	**100%**	**5,022**	**100%**	**3,963**	**100%**
Cost of goods sold	1,155	58%	609	47%	2,551	51%	1,947	49%
Gross margin	**842**	**42%**	**674**	**53%**	**2,471**	**49%**	**2,016**	**51%**
Research and product development	203	10%	297	23%	568	11%	727	18%
General and administration	393	20%	431	34%	1,266	25%	1,313	33%
Sales and marketing	5	0%	33	3%	74	1%	159	4%
Finance costs	42	2%	27	2%	117	2%	82	2%
Income (loss) from operations	**198**	**10%**	**(114)**	**-9%**	**446**	**9%**	**(265)**	**-7%**
Other operating income (loss)	(75)	-4%	(23)	-2%	(166)	-3%	(36)	-1%
Net income (loss)	**123**	**6%**	**(137)**	**-11%**	**280**	**6%**	**(301)**	**-8%**
Basic net income (loss) per common share	0.002		(0.002)		0.005		(0.005)	
Diluted net income (loss) per common share	0.002		(0.002)		0.005		(0.005)	

During the third quarter of 2013 the Company’s revenue increased by 56% or $714,000 to $1,997,000 from $1,283,000 in 2012 and cost of goods sold increased by 90% or $546,000 to $1,155,000 from $609,000 in comparison with the same period of 2012. These changes resulted in an increase in the amount of gross margin by 25% or $168,000 to $842,000 in 2013 from $674,000 in 2012.

There was an Income from operations of $198,000 in the third quarter of 2013 in comparison with a loss of $114,000 in the same period of 2013.

There was a net income in the quarter ended September 30, 2013 of $123,000 in comparison with net loss in the same period of 2012 of $137,000. The Company commenced paying rent on its new manufacturing facility in April 2013 which has been classified as other operating loss as the facility is not yet operational.

During the first nine months of 2013 the Company's revenue increased by 27% or $1,059,000 to $5,022,000 from $3,963,000 in 2012 and cost of goods sold increased by 31% or $604,000 to $2,551,000 from $1,947,000 in comparison with the same period of 2012. These changes resulted in an increase in the amount of gross margin by 23% or $455,000 to $2,471,000 in 2013 from $2,016,000 in 2012.

Income from operations has increased by $711,000 to an income of $4416000 in 2013 from a loss of $265,000 incurred during the first nine months of 2012.

There was a net income in the first nine months of 2013 of $280,000 in comparison with a net loss of $301,000 in the same period of 2012 mostly due to an increase in gross margin contribution and decreased research and product development, general and administration, and sales and marketing expenses, offset by higher other expenses, mainly rent on the new facility.

Revenue

	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
$000s	2013	2012		2013	2012	
Total revenues	1,997	1,283	56%	5,022	3,963	27%

PRODUCT SALES

Sales in the third quarter of 2013 increased by $714,000 or 56% primarily as a result of higher sales volumes of avenanthramides and oat oil.

Sales in the first nine months of 2013 increased by $1,059,000 or 27% primarily as a result of higher sales volumes of avenanthramides, oat oil and veterinary shampoo.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
$000s	2013	2012		2013	2012	
Sales	1,997	1,283	56%	5,022	3,963	27%
Cost of goods sold	1,155	609	90%	2,551	1,947	31%
Gross margin	842	674	25%	2,471	2,016	23%
Gross margin %	42%	53%		49%	51%	

Cost of goods sold is comprised of the direct raw materials required for the specific formulation of products, as well as direct labour, quality assurance and control, packaging, transportation costs, plant costs, and amortization on plant and equipment assets. Aside from labour, rent, quality control related expenses, overhead, and property plant and equipment amortization, the majority of costs are variable in relation to the volume of product produced or shipped.

During the third quarter of 2013 the cost of goods sold increased by $546,000 or 90%, from $609,000 in 2012 to $1,155,000 in 2013. The gross margin in the third quarter of 2013 is higher by 25% mostly due to higher sales. The gross margin percentage decreased by 11% from 53% in the third quarter of 2012 to 42% in the same period of 2013 due to natural feedstock variations and a product sales mix weighted toward lower margin products.

During the first nine months of 2013 the cost of goods sold rose by $604,000 or 31%, from $1,947,000 in 2012 to $2,551,000 in 2013. The gross margin in the first nine months of 2013 is higher by 23% due to higher sales. The gross margin percentage decreased by 2% from 51% in the first nine months of 2012 to 49% in the same period of 2013 due to higher sales volume of a lower margin product.

RESEARCH AND PRODUCT DEVELOPMENT

	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
$000s	2013	2012		2013	2012	
Salaries and benefits	171	167		498	488	
Regulatory and patents	61	33		224	74	
Other	(37)	84		(169)	147	
	195	284	-31%	553	709	-22%
Product development - Ceaprove®	8	13	-38%	15	18	-17%
Total research and product development expenditures	203	297	-32%	568	727	-22%

During the third quarter of 2013 research and development expenses before *CeaProve*® development decreased by 31% or $89,000 in comparison with the same period of 2012 due to grant revenue recognition of discounted CAAP funding and grant contributions from Alberta Innovates Technology Futures and a federal government program offset by increased expenses for regulatory and patents of $28,000. The large increase in patent cost was due to the issue of key beta glucan patents in several European countries. These patent costs are expected to provide significant value to Ceapro shareholders in the future.

CeaProve® costs have decreased from $13,000 to $8,000 as a result of lower costs for patents maintenance.

During the first nine months of 2013 research and development expenses before *CeaProve*® development have decreased by 22% due to grant revenue recognition of discounted CAAP funding and grant contributions from Alberta Innovates Technology Futures and a federal government program offset by a significant increase in expenses for regulatory and patents of $150,000.

CeaProve® costs have decreased by 17% from $18,000 to $15,000 as a result of costs for patents maintenance.

GENERAL AND ADMINISTRATION

$000s	Three Months Ended September 30, 2013	2012	Change	Nine Months Ended September 30, 2013	2012	Change
Salaries and benefits	146	117		467	346	
Consulting	68	102		203	274	
Board of Directors compensation	32	43		108	122	
Insurance	20	23		87	87	
Accounting and Audit fees	18	17		53	51	
Rent	25	26		66	72	
Public Company Costs	16	5		47	69	
Travel	27	23		92	77	
Depreciation	12	12		31	33	
Legal	2	40		36	103	
Other	27	23		76	79	
Total general and administration expenses	393	431	-9%	1,266	1,313	-4%

General and administration expense for the third quarter of 2013 decreased by $38,000 or 9% from $431,000 to $393,000 primarily due to lower consulting costs due to plant related feasibility studies conducted in 2012 but not in 2013 and to lower legal expenses mainly related to AVAC litigation. This was offset by increased expenses for salaries and benefits of $29,000 mainly as a result of new positions related to new business development and engineering activities, public company costs of $11,000, insurance of $3,000 and travel of $4,000 due to increased business development activities.

During the first nine months of 2013 general and administration expenses decreased by $47,000 or 4% mostly as a result of decreased expenses for consulting, legal, rent, public company and legal cost offset by increased expenses for salaries and benefits and travel due to the same reasons as for the third quarter.

SALES AND MARKETING

$000s	Three Months Ended September 30, 2013	2012	Change	Nine Months Ended September 30, 2013	2012	Change
Travel	4	17		24	47	
Consulting	-	11		-	85	
Courses, Conferences & Advertising	5	2		46	14	
Other	(4)	3		4	13	
Total sales and marketing	5	33	-85%	74	159	-54%

Sales and marketing expenses in the third quarter of 2013 decreased by $28,000 or 85% in comparison with the same period of 2012 due to lower travel costs for cosmetic conferences and lower consulting costs.

The Company anticipates continued participation and expenditures at targeted conferences. Our goal is to expand our business with existing customers and to explore potential opportunities with new customers.

The first nine months of 2013 showed a decrease in expenditures of $85,000 or 54% versus 2012 due to a completion of a marketing strategy and brand evaluation project in the first half of 2012.

FINANCE COSTS

$000s	Three Months Ended September 30, 2013	2012	Change	Nine Months Ended September 30, 2013	2012	Change
Interest on royalty financial liability	6	9		20	28	
Interest on long-term loan	8	13		27	42	
New loan application and guarantee fees	17	-		17	-	
Interest on royalties to Guelph & AAFC	-	-		23	-	
Accretion of CAAP loan	11	5		30	12	
	42	27	56%	117	82	43%

As at December 31, 2012, royalty investors received royalties equal to 2.285% (2011 – 2.285%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products and *CeaProve*®, to a maximum of two times the amount invested. AVAC Ltd. receives royalties of up to 2.5% to 5% of revenues from eligible product sales, to a maximum of one and a half to two times the amount invested. Royalty expenses will vary directly with fluctuations in eligible product sales, royalty, license and product development fees, product sales mix, and any new royalty interest offerings that may be completed.

The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily decommitted $668,557 as a result of lower anticipated project expenditures to the maximum possible funding under the agreement of $671,068. The end date for project expenditures and start date for repayments were also extended one year to September 30, 2013 and to December 31, 2014 respectively. As the contributions are non-interest bearing, the fair value at inception is estimated as the present value of the principal payments required, discounted using the prevailing market rates of interest for a similar instrument estimated to be 15% per annum. The difference between the fair value of the contributions and the cash received is accounted for as a government grant. The first payment was received in the first quarter of 2011. Accretion of the CAAP loan was $30,000 in the nine month period ended September 30, 2013 (September 30, 2012 – $12,000).

OTHER OPERATING (INCOME) LOSS

$000s	Three Months Ended September 30, 2013	2012	Change	Nine Months Ended September 30, 2013	2012	Change
Foreign exchange loss (income)	(4)	25		10	38	
Other loss (income)	79	(2)		157	(2)	
	75	23	226%	167	36	364%

Other loss for the third quarter of 2013 includes the plant relocation cost for the new facility in the amount of $162,000.

Foreign exchange income in the quarter ended September 30, 2013 was $4,000 in comparison with a loss of $25,000 in 2012 due to the strengthening of the US dollar versus the Canadian dollar during the quarter and nine months ended September 30, 2013 in comparison with the same period of 2012.

DEPRECIATION AND AMORTIZATION EXPENSES

In the first nine months of 2013 the total depreciation and amortization of $226,000 (2012 - $211,000) was allocated as follows: $31,000 to general and administration expense (2012 - $33,000), $18,000 to inventory (2012 - $41,000), and $177,000 (2012 - $137,000) to cost of goods sold. The amount of depreciation and amortization in the first nine months of 2013 was higher than in the same period of 2012 due to the commencement of amortization of newly acquired manufacturing equipment.

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	2013			2012				2011
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues	1,997	1,012	2,012	1,202	1,283	1,490	1,190	1,552
Net income (loss)	123	(252)	408	(237)	(137)	(160)	(4)	252
Basic net income (loss) per common share	0.002	(0.004)	0.007	(0.004)	(0.002)	(0.003)	(0.000)	0.005
Diluted net income (loss) per common share	0.002	(0.004)	0.007	(0.004)	(0.002)	(0.003)	(0.000)	0.005

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

Liquidity and Capital Resources

CAPITAL EMPLOYED

$000s	September 30, 2013	December 31, 2012
Non-current assets	1,403	1,508
Current assets	1,839	2,378
Current liabilities	(1,817)	(2,566)
Total assets less current liabilities	1,425	1,320
Non-current liabilities	1,086	1,306
Shareholders' equity	339	14
Total capital employed	1,425	1,320

Non-current assets decreased by $105,000 due to a depreciation provision of $226,000 offset by the acquisition of $121,000 of property and equipment.

Current assets decreased by $539,000. Inventories were lower by $334,000; accounts receivables and prepaid expenses were higher by $375,000. Cash increased by $129,000 and restricted cash and cash equivalent decreased in the amount of $709,000.

Current liabilities totaling $1,817,000 decreased by the net amount of $749,000 mostly due to increased sales that resulted in decreased deferred revenue of $703,000, restricted cash and cash equivalent received in 2013 under a capital expenditure grant agreement and recorded as deferred revenue expended in the amount of $709,000, partially offset by the reclassification of employee future benefit obligation of $145,000,

current portion of long-term debt increased of $5,000, trade payables and accrued liabilities increased of $485,000, and royalty interest obligations increased by $28,000.
Non-current liabilities totaling $1,086,000 decreased by the net amount of $220,000 due to long-term debt reclassification to current liabilities of $5,000 and repayment of $126,000, royalty financial liability decreased by $93,000, accrued employee future benefit obligation decreased of $91,000 and a discounted CAAP loan increased in the amount of $95,000.

Equity of $339,000 at September 30, 2013 increased by $325000 from equity of $14,000 at December 31, 2012 due to net income for the period ended September 30, 2013 of $280,000 and recognized share-based compensation of $62,000 offset by accumulated other comprehensive loss of $17,000.

NET DEBT

$000s	September 30, 2013	December 31, 2012
Cash and cash equivalents	402	273
Current financial liabilities	1,385	867
Non-current financial liabilities	960	1,089
Total financial liabilities	2,345	1,956
NET DEBT	1,943	1,683

**Current and non-current financial liabilities include accounts payable and accrued liabilities, current and non-current portion of long term debt, royalties interest payable, current and non-current portion of royalty financial liability, and a CAAP loan.*

The Company's net debt increased by $260,000 due to an increase of cash and cash equivalent in the amount of $129,000, an accounts payable and accrued liabilities increase of $485,000, decreased royalty related obligations of $65,000, long-term debt repaid in the amount of $126,000, and an increased CAAP loan discounted amount recognized of $95,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000s	2013	2012	2013	2012
Sources of funds:				
Funds generated from operations (cash flow)	280	(71)	656	(60)
Changes in non-cash working capital items	(68)	306	(282)	241
Restricted cash received ot utilized	440	-	709	-
Grant used for capital assets	440	-	709	-
Repayable CAAP Funding	(21)	76	130	183
	1,071	311	1,922	364
Uses of funds:				
Purchase of property and equipment	(59)	(28)	(121)	(133)
Purchase of property and equipment for the new manufacturing facility	(360)	-	(629)	-
Purchase of prepaid deposits from grant	(80)		(80)	
Purchase of license	-	-	-	(44)
Deferred revenue reduction	(440)	-	(709)	-
Interest paid	(20)	(27)	(68)	(52)
Repayment of royalty financial liability	(26)	(16)	(60)	(45)
Repayable research funding repayment	-	(15)	-	(43)
Repayment of long term debt	(42)	(39)	(126)	(115)
	(1,027)	(125)	(1,793)	(432)
Net change in cash flows	44	186	129	(68)

Net change in cash flow increased by $197,000 during the first nine months of 2013 in comparison with the same period of 2012.
The Company estimates that the cash flows generated by its operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, capital maintenance investment, and service debt needs.

The Company relies upon revenues generated from the sale of active ingredients, the proceeds of public and private offerings of equity securities and debentures, income offerings, and government funding programs to support the Company's operations.

Total common shares issued and outstanding as at November 8, 2013 were 60,278,948 (November 19, 2012 – 60,278,948). In addition, 3,450,000 stock options as at November 8, 2013 (November 19, 2012 – 2,940,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Ceapro's working capital was $22,000 at September 30, 2013, which was increased by $211,000 from working deficiency of $189,000 at December 31, 2012.

To meet future requirements, Ceapro intends to raise additional cash through some or all of the following methods: public or private equity or debt financing, income offerings, capital leases, collaborative and licensing agreements, and government funding programs. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all.

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.

GOVERNMENT FUNDING

During the year ended December 31, 2010, the Company was approved for non-repayable funding in the amount of $124,000 from Alberta Innovates Technology Futures (AITF). During the first nine months of 2013, the Company received $9,167 (2012 - $32,083), which was recorded as a reduction of research and product development expenses. This program is now completed.

During the year ended December 31, 2012, the Company was approved for a second agreement for non-repayable funding in the amount of $124,000 from AITF. During the first nine months of 2013, the Company received $52,833 which was recorded as a reduction of research and project development expenses. The Company anticipates receiving additional funding of $9,167 in 2013 and $41,250 in 2014 under this agreement.

The Company was approved for non-repayable funding to a maximum of $21,250 of eligible expenditures under the Novel Crops Initiative program from the Prince Edward Island Department of Agriculture. The Company recorded the amount of $5,000 as a reduction of research and product development expenditures under this program in the period ended September 30, 2013 (2012 - $5,000). The Company anticipates no further amount under this program.

In 2011, the Company was approved for non-repayable grant funding from Innovation PEI for a maximum of $100,000. During the year ended December 31, 2011, the Company received $30,000 and recognized $19,500 against eligible expenses and $10,500 as deferred revenue. During the year ended December 31, 2012, the balance of $70,000 potentially receivable was decommitted and the Company recognized $10,500 as deferred revenue. No further amount is expected.

The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to $671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended by one year to September 30, 2013. All amounts claimed under the program are interest-free repayable over eight years beginning in 2014. The Company has received or recognized as receivable funding of $603,961 to date under this program. A maximum funding amount of $67,107 is anticipated to be received in the balance of 2013.

During the year ended December 31, 2011, the Company commenced a research and development project agreement. Under this project, the Company paid cash of $56,177 in 2011 and made additional payments of $28,236 in 2012. The other party to the research and development project agreement made an in-kind contribution to the project of $42,262. The agreement was completed in 2012.

During the year ended December 31, 2011, the Company entered into a Contribution Agreement with Alberta Innovates Bio Solutions for a non-repayable grant contribution totaling up to $1,600,000 towards the construction of a new bio-processing facility, subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received $750,000 in 2011 classified as restricted cash and cash equivalents and deferred revenue, and anticipates additional amounts will be received as follows: $690,000 in 2013 and $160,000 in 2014. An amount of $750,000 has been recorded as a reduction of capitalized expenditures.

During the year ended December 31, 2012, the Company entered into a contribution agreement with an agency of the federal government to provide funding of up to $345,000 for certain research activities. During the period ended September 30, 2013, the Company received or recorded as receivable the amount of $269,440. The Company estimates it will receive a further amount of $75,560 in 2013.

During the second quarter of 2013, the Company entered into a research and development funding agreement with an agricultural producer group. Under the agreement, a maximum of $97,000 may be claimed in total. At September 30, 2013, a total of $81,620 was received or receivable under this agreement and claimed as a reduction of research and development expenses. The Company anticipates receiving an additional $15,380 under this agreement. This agreement is non-repayable.

During the third quarter of 2013, the Company entered into an Agri-Processing Automation and Efficiency Grant Agreement with Alberta Agriculture and Rural Development to provide non-repayable funding for its new manufacturing facility to a maximum amount of $673,000. During the third quarter the company received $76,885 which has been recorded as follows: $45,865 as a reduction of the cost of prepaid equipment deposits, $1,864 as a reduction of cost of goods sold, and $29,165 as a reduction of research and development expense. The Company estimates it will receive an additional $100,000 in 2013 and up to $ 496,115 in 2014.

The Company is currently reviewing additional options available to raise capital.

Related Party Transactions

During the period ended September 30, 2013, $19,000 (2012 - $15,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at September 30, 2013, $6,000 (2012 - $4,000) of royalties were payable to employees and directors.

During the period ended September 30, 2013, the Company paid key management salaries, short-term benefits, consulting fees and director fees totaling $511,000 (2012 – $473,000) and key management personnel received share-based payments of $36,000 (2012 - $29,000).

As at September 30, 2013, consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities were $nil (2012 - $21,000). Amount payable to directors was $29,000 (2012 - $29,000).

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

Commitments and Contingencies

a) During the year ended December 31, 2011, the Company and its wholly owned subsidiary, Ceapro Veterinary Products Inc. 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. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of 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. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

c) During the year ended December 31, 2008, the Company entered into a licensing agreement with the University of Guelph for an exclusive variety of a mint plant. During the year ended December 31, 2011, the Company has entered into a new licensing agreement with the University of Guelph for additional market rights for the exclusive variety of a mint plant.

In accordance with the new agreement, there are future minimum royalty prepayments of $10,000 per annum starting in 2012 for royalty payments which will be calculated as 5% of net sales from products derived from the mint plants. The minimum royalty payments are creditable against royalties in years where royalties are due. 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, 2012 the Company has entered into a new license 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 license agreement remains in force.

The agreement is an executory contract and therefore all royalty payments under the contract 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.

Outlook

We are very pleased with the 2013 year to date results showing an increase of revenues of 26.7% compared to the first nine months of 2012 and showing a net profit of $280,000 compared to a net loss of $301,000 for the same period in 2012. This result is even more impressive considering that we are in a year where we are building a new facility which requires significant investment and resources.

The successful implementation of our upcoming state of the art facility remains our top priority for 2013. While activities in the third quarter progressed as scheduled, we expect that required fine tuning and full commissioning will extend the move to our new site into Q1, 2014. This new facility will house our offices, laboratories and manufacturing activities and will allow for the incorporation of new technologies as well as for exploiting contract services opportunities that are arising. A comprehensive plan has been put in place to secure a smooth transition while maintaining and developing our business in a focused and prioritized manner. Discussions to complete the financing of this project are progressing very well. This new facility will allow us to reach our vision to be recognized as the Canadian leader in botanical actives and a center of excellence in bioprocessing by 2015.

Our research and development continued to be focussed on our value drivers, avenanthramides and beta glucan. Following the successful development of dry formulations of both value drivers, we are pursuing a research program to assess their suitability to be developed as active ingredients to be included in oral formulations that should enable Ceapro to transit to new large markets like functional foods/drinks and nutraceuticals. Results from this research program on formulations are expected by year end. Should these results be favourable, it is expected that pre-clinical research program(s) could be initiated in the first half of 2014. Transition to the functional food and/or nutraceutical sectors with these oral formulations would be a significant opportunity for Ceapro.

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.