Q2 2014

Unaudited Condensed Consolidated Financial Statements
for the Second Quarter ended June 30, 2014

The MD&A provides commentary on the results of operations for the periods ended June 30, 2014 and 2013, the financial position as at June 30, 2014, and the outlook of Ceapro Inc. (%Ceapro+) based on information available as at July 29, 2014. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at June 30, 2014, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2013 and the Managementqs Discussion and Analysis (MD&A) for the year ended December 31, 2013 which are prepared in accordance with International Financial Reporting Standards (IFRS). All comparative percentages are between the periods ended June 30, 2014 and 2013 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 Ceaproqs future plans and operations as at July 29, 2014, 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 formulations;

- A variety of novel manufacturing technologies including Pressurized Gas Expansion 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. Our marketing strategy emphasizes providing technical support to our distributors and their customers to maximize the value of our technology and product utilization. Our vision and business strategy are supported by our commitment to the following core values:

- Adding value to all aspects of our business;

- Enhancing the health of humans and animals;

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

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

- Developing personnel through guidance, opportunities, and encouragement.

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

Risks and Uncertainties

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

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

a) Credit risk:

Trade and other receivables

The Company makes sales to customers that are well-established within their respective industries. Based on previous experience the counterparties had zero default rates and management views this risk as minimal. Approximately 84% of trade receivables are due from two customers at June 30, 2014 and all trade receivables are current. These main customers present good credit quality and historically have a high quality credit rating.

Other receivables represent amounts due for research program claims, government goods and services taxes, and scientific and research tax credits. Management has assessed the credit risk to be low.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $708,490 at June 30, 2014 and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk:

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The Company may be exposed to liquidity risks if it is unable to collect its trade and other receivables balances in a timely manner, which could in turn impact the Companyqs long-term ability to meet commitments under its current facilities. In order to manage this liquidity risk, the Company regularly reviews its aged trade receivables listing to ensure prompt collections. The Company regularly reviews its cash availability and whenever conditions permit; the excess cash is deposited in short-term interest bearing instruments to generate revenue while maintaining liquidity. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

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

	0 - 1 year	1 - 3 years	4 - 7 years	8-12 years	Total
	$	$	$		$
Accounts payable and accrued liabilities	1,784,000	-	-	-	1,784,000
Loan payable secured by certain intellectual property due January, 2019.	313,859	627,718	494,944	-	1,436,521
Loan payable secured by a general security agreement due April, 2019.	352,227	704,453	645,749	-	1,702,429
Long-term debt, including interest	200,082	400,164	116,715	-	716,961
Loan payable secured by a forklift due June, 2018.	14,004	28,008	14,004	-	56,016
Royalties interest payable	47,105	-	-	-	47,105
Royalty financial liability	29,668	-	-	-	29,668
Repayable CAAP funding	83,883	167,766	335,536	83,883	671,068
Total	2,824,828	1,928,109	1,606,948	83,883	6,443,768

c) Market risk

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

1. Foreign currency risk

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

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	647,866	6,479	(6,479)
Financial Liabilities			
Accounts payable and accrued liabilities and Deferred revenue	206,817	(2,068)	2,068
Total increase (decrease)		4,411	(4,411)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial Liabilities			
Long-term debt	921,995	(9,220)	9,220
Total increase (decrease)		(9,220)	9,220

The carrying amount of accounts receivable and accounts payable and accrued liabilities and deferred revenue in USD and long-term debt in Euro represents the Company's exposure at June 30, 2014.

2. Interest rate risk.

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

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 always strives to identify and retain key employees and always strives 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.

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 has not yet been determined by the IASB. 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 June 30, 2014 and 2013

CONSOLIDATED INCOME STATEMENT

	Quarters Ended September 30,				Six Months Ended June 30,			
$000s except per share data	2014	%	2013	%	2014	%	2013	%
Total revenues	**2,432**	**100%**	**1,012**	**100%**	**4,386**	**100%**	**3,025**	**100%**
Cost of goods sold	988	41%	433	43%	1,882	43%	1,396	46%
Gross margin	**1,444**	**59%**	**579**	**57%**	**2,504**	**57%**	**1,629**	**54%**
Research and product development	189	8%	227	22%	414	9%	364	12%
General and administration	462	19%	436	43%	884	20%	873	29%
Sales and marketing	6	0%	47	5%	7	0%	69	2%
Finance costs	60	2%	24	2%	152	3%	75	2%
Income (loss) from operations	**727**	**30%**	**(155)**	**-15%**	**1,047**	**24%**	**248**	**8%**
Other operating loss	(97)	-4%	(97)	-10%	(240)	5%	(92)	-3%
Net income (loss)	**630**	**26%**	**(252)**	**-25%**	**807**	**18%**	**156**	**5%**
Basic net income (loss) per common share	0.010		(0.004)		0.013		0.003	
Diluted net income (loss) per common share	0.010		(0.004)		0.013		0.003	

During the second quarter of 2014 the Company's revenue significantly increased by 140% or $1,420,000 to $2,432,000 from $1,012,000 in 2013 and cost of goods sold increased by 128% or $555,000 to $988,000 from $433,000 in comparison with the same period of 2013. These changes resulted in an increase in the amount of gross margin by 149% or $865,000 to $1,444,000 in 2014 from $579,000 in 2013.

Income from operations has increased by $882,000 to $727,000 from a loss of $155,000.

There was net income in the quarter ended June 30, 2014 of $630,000 in comparison with net loss in the same period of 2013 of $252,000.

During the first six months of 2014 the Company's revenue increased by 45% or $1,361,000 to $4,386,000 from $3,025,000 in 2013 and cost of goods sold increased by 35% or $486,000 to $1,882,000 from $1,396,000 in comparison with the same period of 2013. These changes resulted in an increase in the amount of gross margin by 54% or $875,000 to $2,504,000 in 2014 from $1,629,000 in 2013.

Income from operations has increased by $799,000 to $1,047,000 in 2014 from $248,000 during the first six months of 2013.

Net income in the first six months of 2014 has increased of $651,000 to $807,000 from $156,000 in the same period of 2013 mostly due to an increase in gross margin offset by higher other expenses.

Revenue

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2014	2013		2014	2013	
Total revenues	2,432	1,012	140%	4,386	3,025	45%

PRODUCT SALES

The sales to the personal care industry in the second quarter of 2014 increased by $1,420,000 or 140% primarily as a result of higher sales volumes of avenanthramides and oat oil and beta glucan.

The sales to the personal care industry in the first six months of 2014 increased by $1,361,000 or 45% primarily as a result of higher sales volumes of avenanthramides and oat oil.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2014	2013		2014	2013	
Sales	2,432	1,012	140%	4,386	3,025	45%
Cost of goods sold	988	433	128%	1,882	1,396	35%
Gross margin	1,444	579	149%	2,504	1,629	54%
Gross margin %	59%	57%		57%	54%	

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

During the second quarter of 2014 cost of goods sold increased by $555,000 or 128%, from $433,000 in 2013 to $988,000 in 2014. The gross margin in the second quarter of 2014 is higher by 149% mostly due to higher sales. The gross margin percentage increased by 2% from 57% in the second quarter of 2013 to 59% in the same period of 2014 due to favorable natural feedstock variations and a product sales mix weighted toward higher margin products.

During the first six months of 2014 the cost of goods sold rose by $486,000 or 35%, from $1,396,000 in 2013 to $1,882,000 in 2014. The gross margin in the first six months of 2014 was higher by 54% due to higher sales. The gross margin percentage increased by 3% from 54% in the first six months of 2013 to 57% in the same period of 2014, mainly due to high quality feedstock that was available.

RESEARCH AND PRODUCT DEVELOPMENT

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2014	2013		2014	2013	
Salaries and benefits	120	160		247	327	
Regulatory and patents	79	129		104	163	
Other	(23)	(69)		50	(133)	
	176	220	-20%	401	357	12%
Product development - Ceaprove®	13	7	86%	13	7	86%
Total research and product development expenditures	189	227	-17%	414	364	14%

During the second quarter of 2014 research and development expenses before *CeaProve*® development decreased by 20% or $44,000 in comparison with the same period of 2013 due to decreased salary costs of $40,000 and regulatory and patents expenditure of $50,000. The higher patent cost in 2013 was due to the issue of key beta glucan patents in several European countries.

CeaProve® costs have increased from $7,000 in 2013 to $13,000 in 2014 due to patent costs.

During the first six months of 2014 research and development expenses before *CeaProve*® development have increased by 12% due to lower amounts of grant revenue recognition of discounted CAAP funding and grant contributions from Alberta Innovates Technology Futures and a federal government program in 2014 in comparison with the same period of 2013 offset by decreased expenses for salary costs of $80,000 and regulatory and patents expenditures of $59,000.

CeaProve® costs have increased by 86% from $7,000 to $13,000.

GENERAL AND ADMINISTRATION

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2014	2013		2014	2013	
Salaries and benefits	142	157		297	321	
Consulting	67	68		134	135	
Board of Directors compensation	45	36		96	76	
Insurance	28	34		57	67	
Accounting and Audit fees	29	20		44	35	
Rent	28	16		53	41	
Public Company Costs	36	24		44	31	
Travel	38	41		62	65	
Depreciation	9	8		25	19	
Legal	8	14		12	34	
Other	32	18		60	49	
Total general and administration expenses	462	436	6%	884	873	1%

General and administration expense for the second quarter of 2014 increased by $26,000 or 6% from $436,000 to $462,000 primarily due to higher rent, public company costs, board of directors compensation, and other costs offset by lower costs for salaries and insurance.

During the first six months of 2014 general and administration expenses increased by $11,000 or 1% mostly due to the same reasons as for the second quarter.

SALES AND MARKETING

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2014	2013		2014	2013	
Travel	-	7		-	20	
Courses, Conferences & Advertising	4	35		4	41	
Other	2	5		3	8	
Total sales and marketing	6	47	-87%	7	69	-90%

Sales and marketing expenses in the second quarter of 2014 decreased by $41,000 or 87% in comparison with the same period of 2013 as a result of the decision to place greater marketing emphasis on distribution partners which requires lower levels of expenditure.

Our goal is to expand our business with existing customers and to explore potential opportunities with new customers.

The first six months of 2014 showed a decrease in expenditures of $62,000 or 90% versus 2013 for the same reasons as experienced in the second quarter.

FINANCE COSTS

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2014	2013		2014	2013	
Interest on royalty financial liability	3	6		7	14	
Interest on long-term loan	39	8		60	19	
Transaction costs	4	-		9	-	
Interest on royalties to Guelph & AAFC	-	-		48	23	
Accretion of CAAP loan	14	10		28	19	
	60	24	150%	152	75	103%

As at June 30, 2014, royalty investors received royalties equal to 2.285% (2013 . 2.285%) of revenues from product sales and royalty, licence, 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, licence and product development fees, product sales mix, and any new royalty interest offerings that may be completed.

Finance costs increased in the period ended June 30, 2014 in comparison with the same period of 2013 primarily due to minimum royalties payable to the University of Guelph & AAFC, accretion of the CAAP loan and increased interest on long-term debt due to new debt facilities added.

The Company entered into Canadian Agricultural Adaptation Program (%CAAP+) repayable contribution agreements for total possible funding of $1,339,625 available 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 $28,000 in the six month period ended June 30, 2014 (June 30, 2013 . $19,000).

OTHER OPERATING LOSS (INCOME)

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2014	2013		2014	2013	
Foreign exchange loss (income)	(41)	18		20	14	
Loss on write off of licence	26	-		26	-	
Loss on disposal of property and equipment	-	-		4	-	
Other (income)	(3)	(2)		(3)	(4)	
Plant relocation costs	115	81		193	82	
	97	97	0%	240	92	161%

Foreign exchange loss in the six period ended June 30, 2014 was $20,000 in comparison with a loss of $14,000 in 2013 due to the fluctuations of the US dollar and Euro versus the Canadian dollar during the in comparison with the same period of 2013. Gains, particularly against Euro denominated long term debt were recognized in the three months ended June 30, 2014. A one-time charge of $26,000 to write off a licence was recognized. Plant relocations cost represents cost for the new manufacturing facility that is not yet operational.

DEPRECIATION AND AMORTIZATION EXPENSES

In the six month period ended June 30, 2014 the total depreciation and amortization of $138,000 (2013 - $152,000) was allocated as follows: $25,000 to general and administration expense (2013 - $19,000), $23,000 to inventory (2013 - $38,000), and $90,000 (2013 - $95,000) to cost of goods sold.

QUARTERLY INFORMATION

The following selected financial information is derived from Ceapro's unaudited quarterly financial statements for each of the last eight quarters, all of which cover periods of three months. All amounts shown are in Canadian currency.

$000s except per share data	2014		2013				2012	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues	2,432	1,954	1,503	1,997	1,012	2,012	1,202	1,283
Net income (loss)	630	177	(117)	123	(252)	408	(237)	(137)
Basic net income (loss) per common share	0.010	0.003	(0.002)	0.002	(0.004)	0.007	(0.004)	(0.002)
Diluted net income (loss) per common share	0.010	0.003	(0.002)	0.002	(0.004)	0.007	(0.004)	(0.002)

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	June 30, 2014	December 31, 2013
Non-current assets	4,682	1,948
Current assets	2,484	3,149
Current liabilities	(2,792)	(2,213)
Total assets less current liabilities	4,374	2,884
Non-current liabilities	3,135	2,640
Shareholders' equity	1,239	244
Total capital employed	4,374	2,884

Non-current assets increased by $2,734,000 due to an acquisition of $2,894,000 of property and equipment (net grant proceeds) offset by a depreciation provision of $138,000, fixed asset disposals of $4,000, licence write off of $26,000 and an increase in deposits of $8,000.

Current assets decreased by $665,000. Cash decreased by $1,245,000, accounts receivables and prepaid expenses increased by $280,000. Inventories increased by $300,000.

Current liabilities totaling $2,792,000 increased by the net amount of $579,000 mostly due to an increase in the current portion of long-term debt of $228,000, an increase in trade payables and accrued liabilities of $789,000, an increase in the current portion of CAAP loan of $5,000 offset by a decreased employee future benefit obligation of $20,000, a decrease in royalty related obligations of $62,000 and a decrease in deferred revenue of $361,000.

Non-current liabilities totaling $3,135,000 increased by the net amount of $495,000 due to long-term debt increases of $599,000 and a discounted CAAP loan increase in the amount of $23,000 offset by accrued employee future benefit obligation reclassified to current liabilities in the amount of $127,000.

Equity of $1,239,000 at June 30 2014 increased by $995,000 from equity of $244,000 at December 31, 2013 due to net income for the period ended June 30, 2014 of $807,000 and recognized share-based compensation of $68,000 and proceeds from share options exercised of $120,000.

NET DEBT

$000s	June 30, 2014	December 31, 2013
Cash and cash equivalents	708	1,953
Current financial liabilities	2,665	1,705
Non-current financial liabilities	3,135	2,513
Total financial liabilities	5,800	4,218
NET DEBT	5,092	2,265

**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 of royalty financial liability, and current and non-current portion of CAAP loan.*

The Company's net debt increased by $2,827,000 due to a decrease of cash and cash equivalent in the amount of $1,245,000, accounts payable and accrued liabilities increase of $789,000, long-term debt increase in the amount of $827,000, CAAP loan discounted amount recognized of $28,000 offset by decreased royalty related obligations of $62,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended June 30, 2014 and 2013.

$000s	Quarters Ended June 30, 2014	Quarters Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Sources of funds:				
Funds generated from operations (cash flow)	798	(172)	1,198	376
Changes in non-cash working capital items	(108)	291	(207)	(244)
Restricted cash received ot utilized	-	150	-	269
Grant used for capital assets	126	150	211	269
Repayable CAAP Funding	-	88	-	151
Share issuance	107	-	120	-
Long-term debt	546	-	1,071	-
	1,469	507	2,393	821
Uses of funds:				
Purchase of property and equipment	(622)	(18)	(1,508)	(62)
Purchase of leasehold improvements	(943)	(150)	(1,588)	(269)
Employee future benefits obligation repayment	(100)	-	(150)	-
Deferred revenue reduction	-	(120)	-	(239)
Interest paid	(30)	(37)	(70)	(48)
Repayment of royalty financial liability	(68)	(35)	(68)	(35)
Repayment of long term debt	(211)	(42)	(254)	(83)
	(1,974)	(402)	(3,638)	(736)
Net change in cash flows	(505)	105	(1,245)	85

Net change in cash flow decreased by $1,330,000 during the six month period ended June 30, 2014 in comparison with the same period of 2013.

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 and capital investment but believes there may be other cost uncertainties pertaining to commissioning and start up of a new plant.

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 July 29, 2014 were 61,228,948 (August 28, 2013 - 60,278,948). In addition, 3,290,000 stock options as at July 29, 2014 (August 28, 2013 – 4,100,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Ceapro's working capital deficiency was $308,000 at June 30, 2014, which was decreased by $1,245,000 from working capital of $936,000 at December 31, 2013.

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

a) 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 period ended June 30, 2014, the Company received $nil (2013 - $9,167) which was recorded as a reduction of research and product development expenses. This agreement has now been completed.

b) 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 period ended June 30, 2014, the Company received $18,333 (2013 - $27,500) which was recorded as a reduction of research and project development expenses. This agreement has now been completed.

c) 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 $nil as a reduction of research and product development expenditures under this program in the period ended June 30, 2014 (2013 - $5,000). This agreement has now been completed.

d) The Company entered into Canadian Agricultural Adaptation Program (%CAAP+) repayable contribution agreements for total possible funding of $1,339,625 receivable over the year from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to $671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended one year to September 30, 2013. All amounts claimed under the program are repayable interest free over eight years beginning in 2014. The Company has received or recorded as receivable funding of $671,068 to date under this program and no further funds are expected.

e) During the year ended December 31, 2011, the Company entered into a Contribution Agreement with AI-BIO Solutions for a non-repayable grant contribution totaling up to $1,600,000 towards the construction of a new bio-processing facility and 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 received of $690,000 in 2013. The amount of $nil (2013 - $310,438) was recorded as a reduction of capitalized expenditures in the period ended June 30, 2014. An amount of $160,000 is expected to be received in 2014.

f) 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 $253,000 for certain research activities. This contribution agreement was amended to increase the potential non-repayable contribution amount to $345,000 from $253,000 in 2013. During the period ended June 30, 2014 the Company received or recorded as receivable the amount of $nil (June 30, 2013 - $269,440). The agreement is now completed.

g) During the year ended December 31, 2013 the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding in an amount up to $673,000. During the six months ended June 30, 2014 the Company received or recorded as receivable the amount of $219,141, of which $211,155 was recorded as a reduction of capital expenditures and equipment deposits. The Company anticipates receiving up to an additional $261,522 in 2014.

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

Related Party Transactions

During the period ended June 30, 2014, $17,000 (2013 - $12,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at June 30, 2014, $9,000 (2013 - $4,000) of royalties were payable to employees and directors.

During the period ended June 30, 2014, the Company paid key management salaries, short-term benefits, consulting fees and director fees totaling $255,000 (2013 . $335,000) and key management personnel received share-based payments of 27,000 (2013 - $31,000).

Amount payable to directors at June 30, 2014 was $29,000 (2013 - $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.

During the quarter ended June 30, 2014, the Company terminated the agreement to focus on core activities and wrote off the remaining balance of the licence. This resulted in an impairment loss of $25,875 which has been recognized in other operating loss.

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

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

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

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

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 second quarter 2014 results showing record sales of $2,432,000 and a net profit of $630,000. These results were achieved during a period of significant non-recurrent expenses associated with the construction of our new state-of-the-art manufacturing facility, and the acquisition and installation of customized equipment.

We are focussed on the successful commissioning of the new facility during the second half of 2014. We expect to commence validation trials during September, 2014. As part of our risk mitigation plan, we will continue to build up significant inventory for our flagship product, avenanthramides, as we expect further sales increases in the future.

In addition, we expect to pursue our research and development program with dry formulations of our value drivers, avenanthramides and beta glucan. Impregnation studies to test beta glucan as a potential delivery system will be initiated during Q3, 2014 while early stages studies to develop both beta glucan and avenanthramides as nutraceuticals and/or pharmaceuticals will be initiated during Q4, 2014. These trials will be conducted over a 24 months period and will require major investments. Transition to these sectors will represent 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.

Financial Statements

Unaudited Condensed Consolidated Financial Statements for the Second Quarter Ended June 30, 2014

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 Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

	June 30, 2014	December 31, 2013
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	708,490	1,953,019
Trade receivables	691,265	250,859
Other receivables	251,920	279,413
Inventories (note 4)	623,227	323,582
Prepaid expenses and deposits	209,157	342,289
	2,484,059	3,149,162
Non-Current Assets		
Deposits	36,903	28,562
Licenses (note 5)	37,773	66,254
Property and equipment (note 6)	4,607,736	1,853,024
	4,682,412	1,947,840
TOTAL ASSETS	7,166,471	5,097,002
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	1,784,000	994,408
Deferred revenue	-	361,309
Current portion of long-term debt (note 7)	727,373	499,718
Current portion of employee future benefits obligation (note 8)	125,558	145,973
Current portion of CAAP loan (note 10)	77,858	72,942
Royalties interest payable	47,105	31,631
Current portion of royalty financial liability	29,668	106,692
	2,791,562	2,212,673
Non-Current Liabilities		
Employee future benefits obligation (note 8)	-	127,009
Long-term debt (note 7)	2,821,389	2,222,298
CAAP loan (note 10)	314,236	290,529
	3,135,625	2,639,836
Equity		
Share capital (note 9)	6,529,140	6,315,858
Contributed surplus	477,943	503,829
Accumulated other comprehensive loss	(16,916)	(16,916)
Deficit	(5,750,883)	(6,558,278)
	1,239,284	244,493
TOTAL LIABILITIES AND EQUITY	7,166,471	5,097,002

See accompanying notes

CEAPRO INC.
Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)
Unaudited

	Quarters Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
Revenue (note 14)	2,431,736	1,012,322	4,386,083	3,024,601
Cost of goods sold	987,603	433,204	1,881,906	1,395,589
Gross margin	1,444,133	579,118	2,504,177	1,629,012
Research and product development	189,461	226,738	413,967	364,449
General and administration	461,808	436,473	884,067	872,986
Sales and marketing	5,500	46,570	6,667	68,923
Finance costs (note 13)	60,496	24,137	152,360	74,643
Income (loss) from operations	726,868	(154,800)	1,047,116	248,011
Other operating loss (note 12)	(96,902)	(96,915)	(239,721)	(91,555)
Net income (loss) for the period	629,966	(251,715)	807,395	156,456
Other comprehensive loss				
Actuarial loss on employee future benefit obligation (note 8)	-	-	-	(16,916)
Total comprehensive income (loss) for the period	629,966	(251,715)	807,395	139,540
Net income (loss) per common share (note 19):				
Basic	0.01	(0.00)	0.01	0.00
Diluted	0.01	(0.00)	0.01	0.00
Weighted average number of common shares outstanding	60,591,860	60,278,948	60,474,252	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, 2013	6,315,858	503,829	(6,558,278)	(16,916)	244,493
Share-based payments	-	67,646	-	-	67,646
Stock options exercised	213,282	(93,532)			119,750
Net income for the period	-	-	807,395	-	807,395
Balance June 30, 2014	6,529,140	477,943	(5,750,883)	(16,916)	1,239,284
Balance December 31, 2012	6,315,858	431,792	(6,734,086)	-	13,564
Share-based payments	-	52,831	-	-	52,831
Net income for the period	-	-	156,456	-	156,456
Other comprehensive loss (actuarial loss) (note 8)	-	-	-	(16,916)	(16,916)
Balance June 30, 2013	6,315,858	484,623	(6,577,630)	(16,916)	205,935

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

	Six Months Ended June 30, 2014 $	2013 $
OPERATING ACTIVITIES		
Net income for the period	807,395	156,456
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Finance costs	114,976	55,641
Transaction costs	8,761	-
Depreciation and amortization	138,399	152,396
Loss on disposal of property and equipment	3,680	-
Loss on write off of licence	25,875	
Accretion of CAAP loan (note 10)	28,623	19,002
Grant revenue recognized	-	(75,386)
Employee future benefits obligation	2,576	14,900
Share-based payments	67,646	52,831
Net income for the period adjusted for non-cash items	1,197,931	375,840
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(440,406)	(85,506)
Other receivables	27,493	37,968
Inventories	(299,645)	134,788
Prepaid expenses and deposits	115,836	65,885
Deferred revenue	(361,309)	(293,264)
Royalty liability accrued	6,535	-
Accounts payable and accrued liabilities	744,118	(74,055)
	(207,378)	(214,184)
Net income for the period adjusted for non-cash and working capital items	990,553	161,656
Interest paid	(69,502)	(47,802)
CASH GENERATED FROM OPERATIONS	921,051	113,854
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,507,717)	(62,010)
Purchase of leasehold improvements	(1,588,668)	(269,215)
	(3,096,385)	(331,225)
FINANCING ACTIVITIES		
Long-term debt	1,071,678	-
Employee future benefits obligation repayment	(150,000)	-
Stock options exercised	119,750	-
Repayable CAAP Funding	-	151,156
Repayment of Long-term debt	(253,693)	(83,198)
Grant used for purchasing of leaseholds, property and equipment and prepaid deposits	211,155	269,215
Deferred revenue	-	(269,215)
Restricted cash and cash equivalents	-	269,215
Repayment of royalty financial liability	(68,085)	(34,532)
	930,805	302,641
(Decrease) increase in cash and cash equivalents	(1,244,529)	85,270
Cash and cash equivalents at beginning of the period	1,953,019	273,106
Cash and cash equivalents at end of the period	708,490	358,376

See accompanying notes

Cash and cash equivalents are comprised of $101,744 (2013 - $257,648) on deposit with financial institutions, $6,746 (2013 - $100,728) held in money market mutual funds, and $600,000 (2013 - $nil) held in guaranted investment certificates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013.

1. NATURE OF BUSINESS OPERATIONS AND GOING CONCERN

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

The Company's head office address is 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 significant doubt upon the validity of this assumption. While the Company has recorded a net income of $807,395 during the six months ended June 30, 2014, it has not yet achieved consistent profitability since inception.

The Company is currently in progress to complete a new manufacturing facility. This involves substantial capital expenditures for engineering and design, permitting, construction of leaseholds, equipment, as well as other related costs required to meet the requirements of major customers. The total investment currently planned for these items is currently estimated at $6,250,000 of which the Company has completed and recorded approximately $5,200,000.

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

The Company will have much higher debt repayment requirements in 2014 as a result of the two new long term debt facilities entered into in 2013. The Company may need to supplement its operating cash flows with additional cash resources to maintain compliance with all debt agreements.

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, 2013.

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, 2013.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on July 30, 2014.

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

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 companyqs 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 has not yet been determined by the IASB. 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 inventories at the end of each reporting period:

	June 30, 2014 $	December 31, 2013 $
Raw materials	213,082	224,671
Work in progress	112,160	-
Finished goods	297,985	98,911
	623,227	323,582

Inventories expensed to cost of goods sold during the three months ended June 30, 2014 are $1,862,289 (June 30, 2013 - $1,371,643).

5. LICENCES

During the year ended December 31, 2012 the Company entered into a new licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and commenced amortizing the licence over 15 years, in April 2012. Amortization of $1,481 has been included in general and administration for the six months ended June 30, 2014 (June 30, 2013 - $1,481) (see note 16(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. The remaining unamortized portion of the licence fee from 2008 and the new fee in 2011 is being amortized over 10 years, being the term of the new licensing agreement, commencing in 2011. Amortization of $1,125 has been included in general and administration for the six months ended June 30, 2014 (June 30, 2013 - $2,250) (see note 16(c)). During the quarter ended June 30, 2014 the cost of the licence fee of $45,000 and accumulated amortization of 19,125 were written off and included in other operating loss as a result of a decision by the Company to terminate the licence agreement.

Cost of Licenses	$
Balance - December 31, 2013	89,439
Additions	-
Write off	(45,000)
Balance - June 30, 2014	44,439
Accumulated amortization	
Balance - December 31, 2013	23,185
Amortization	2,606
Write off	(19,125)
Balance - June 30, 2014	6,666
Net book value	
Balance - June 30, 2014	37,773
Balance - December 31, 2013	66,254

6. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
December 31, 2013	27,939	3,645,045	82,100	300,101	277,301	4,332,486
additions	1,277,566	51,031	123,605	55,515	1,588,668	3,096,385
cost reduced by grant	(202,200)	-	-	-	-	(202,200)
disposal	-	(10,209)	(8,844)	(12,970)	-	(32,023)
June 30, 2014	1,103,305	3,685,867	196,861	342,646	1,865,969	7,194,648
Accumulated depreciation						
December 31, 2013	-	2,042,607	68,710	247,781	120,364	2,479,462
additions	-	126,308	1,324	8,161	-	135,793
disposal	-	(6,721)	(8,675)	(12,947)	-	(28,343)
June 30, 2014	-	2,162,194	61,359	242,995	120,364	2,586,912
Carrying value						
June 30, 2014	1,103,305	1,523,673	135,502	99,651	1,745,605	4,607,736
December 31, 2013	27,939	1,602,438	13,390	52,320	156,937	1,853,024

Leasehold improvements for the new manufacturing facility are not being amortized as the facility is not yet in the condition necessary to commence commercial operations.

Depreciation expense allocation for the following periods:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Six Months Ended June 30, 2014	90,256	22,996	22,541	135,793
Six Months Ended June 30, 2013	95,179	38,057	15,429	148,665

7. LONG-TERM DEBT

	June 30, 2014 $	December 31, 2013 $
Loan payable secured by a general security agreement, due January, 2018 (a).	671,161	758,033
Loan payable secured by certain intellectual property due January, 2019 (b).	1,347,034	1,465,500
Loan payable secured by a general security agreement due April, 2019 (c).	1,551,644	579,352
Loan payable secured by a forklift due June, 2018 (d).	51,031	-
Transaction costs	(72,108)	(80,869)
	3,548,762	2,722,016
Less current portion	727,373	499,718
	2,821,389	2,222,298

Interest expense is presented under finance costs for the following periods:

Period Ended June 30, 2014	60,772
Period Ended June 30, 2013	19,094

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

(b) During the year ended December 31, 2013, the Company entered into a new loan agreement which is secured by certain intellectual property and due January 2, 2019. The loan is for 1 million Euros, is repayable over 5 years at an interest rate of 2.85%. At June 30, 2014 the loan balance was $1,347,034 in Canadian currency. Monthly blended principal and interest payments in the amount of $17,902 Euro commence February 1, 2014. Based on the exchange rate at June 30, 2014, the monthly payment is $26,166 in Canadian currency.

(c) During the year ended December 31, 2013, the Company entered into a new loan secured by a general security agreement and due April 1, 2019. The loan can be drawn to maximum $1,600,000 Canadian dollars, is repayable over a 5 year term and has an interest rate of 3.91%. At June 30, 2014 $1,600,000 was drawn on this loan (December 31, 2013, $579,352). Monthly blended principal and interest repayment in the amount of $29,352 commenced on May 1, 2014. The loan is secured by a general security agreement covering all present and after acquired personal property subject to a subordination of the claim for certain intellectual property that has been pledged as security for the long term debt described in note 7(b).

(d) During the quarter ended June 30 ,2014 the company entered into a new loan agreement to purchase a forklift. The loan is repayable over a four year term and requires monthly payments of $1,167 and has an interest rate of 6.15%. The loan is secured by the forklift and due June 1, 2018.

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

8. EMPLOYEE FUTURE BENEFITS OBLIGATION

The Company has an unfunded, non-registered, non-indexed defined retirement benefit plan for an officer. The retirement benefit is two monthsqsalary for each year the employee is employed by the Company up to age 55.

Management is required to make an estimate regarding the discount rate used to determine the accrued benefit obligation. This estimate is of a short-term nature, which is consistent with the nature of the revised agreement. Actuarial losses of $16,916 arose from changes of discount rate from 4.19% in 2012 to 2.3% in 2013.

The agreement was revised during the year ended December 31, 2013 and 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

As a result of an amendment to the agreement, the Company recorded a loss on curtailment of $14,815 in the year ended December 31, 2013. The present value of the installments at June 30, 2014 was $125,558 and no further expenses under current service costs will be incurred as a result of this amendment.

Accrued benefit obligation	**Six Months Ended June 30, 2014** **$**	Year Ended December 31, 2013 $
Unfunded balance, beginning of period	**272,982**	217,219
Current service cost	**-**	18,301
Loss on curtailment (or past service costs)	**-**	14,815
Interest costs on accrued benefit obligation	**2,576**	5,731
Actuarial losses, net of $nil tax	**-**	16,916
Benefit repayment	**(150,000)**	-
	125,558	272,982
Less current portion	**125,558**	145,973
	-	127,009

Elements of defined benefit costs recognized in the period	**Six Months Ended June 30, 2014** **$**	Year Ended December 31, 2013 $
Current service cost	**-**	18,301
Loss on curtailment	**-**	14,815
Interest cost on accrued benefit obligation	**2,576**	5,731
	2,576	38,847

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

9. SHARE CAPITAL

a. Authorized

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

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

b. Issued - Class A common shares

	Six Months Ended June 30, 2014		Year Ended December 31, 2013	
	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
Stock options exercised	**950,000**	**213,282**	-	-
Balance at end of the period	**61,228,948**	**6,529,140**	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)	**June 30, 2014 Number of Options**	December 31, 2013 Number of Options
0.13	0.14	2024	9.9	**250,000**	-
0.08	0.10	2024	9.5	**885,000**	-
0.05	0.10	2023	8.6	**1,200,000**	1,265,000
0.09	0.10	2022	8.0	**300,000**	300,000
0.11	0.15	2016	2.0	**325,000**	325,000
0.06	0.10	2015	1.2	**330,000**	430,000
0.10	0.13	2014	-	**-**	825,000
			7.5	**3,290,000**	**3,145,000**

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

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the period ended June 30, 2014 the Company granted 1,180,000 (December 31, 2013 . 1,400,000) 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 2014 was 2.22% (2013 - 1.62%), the weighted average expected volatility was 114% (2013 - 111%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2013 . 10 years), forfeiture rate was 0% (2013 - 0%), the weighted average share price was $0.10 (2013 . $0.06), the weighted average exercise price was $0.11 (2013 . $0.10), and the expected dividends were nil (2013 - nil). The weighted average grant date fair value of options granted in the period ended June 30, 2014 was $0.09 (2013 - $0.05) per option.

10. CAAP LOAN

The balance of repayable contribution is derived as follows:

	Six Months Ended June 30, 2014 $	Year Ended December 31, 2013 $
Opening balance	363,471	220,978
Funding received or receivable	-	197,495
Grant revenue recognised	-	(97,072)
Accretion of CAAP loan	28,623	42,070
	392,094	363,471
Less current portion	77,858	72,942
	314,236	290,529

The principal repayment required for amounts received or receivable from inception to June 30, 2014 is $83,883 annually from 2014 through 2021.

11. RELATED PARTY TRANSACTIONS

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

	Six Months Ended June 30,	
	2014	2013
	$	$
Royalties earned by employees and directors	16,947	12,425
Amounts payable to employees and directors included in royalties payable	9,133	4,284
Key management salaries, short-term benefits, consulting fees and director fees	254,900	334,500
Key management personnel share based payments	26,901	31,011
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.

12. OTHER OPERATING LOSS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
Foreign exchange loss (income)	(40,837)	18,157	19,802	14,286
Loss on write off of licence	25,875	-	25,875	-
Loss on disposal of property and equipment	-	-	3,680	-
Other (income)	(3,092)	(2,242)	(2,833)	(3,731)
Plant relocation costs	114,956	81,000	193,197	81,000
	96,902	96,915	239,721	91,555

13. FINANCE COSTS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
Interest on royalty financial liability	2,703	6,216	6,704	14,047
Interest on long-term debt	39,296	7,947	60,772	19,094
Transaction costs	4,043	-	8,761	-
Royalties to University of Guelph & AAFC	-	-	47,500	22,500
Accretion of CAAP loan	14,454	9,974	28,623	19,002
	60,496	24,137	152,360	74,643

14. SEGMENTED INFORMATION

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

	Quarters Ended Juner 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
United States	2,040,732	860,992	3,633,688	2,356,088
Germany	323,516	126,896	652,904	505,912
Other	66,825	19,219	98,828	150,115
Canada	663	5,215	663	12,486
	2,431,736	1,012,322	4,386,083	3,024,601

15. EMPLOYEE BENEFITS

	Quarters Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
Employee benefits	624,182	590,575	1,185,604	1,182,239

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

16. 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 licencing 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.

During the quarter ended June 30, 2014, the Company terminated the agreement to focus on core activities and wrote off the remaining balance of the licence. This resulted in an impairment loss of $25,875 which has been recognized in other operating loss.

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

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

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

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

(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.

17. FINANCIAL INSTRUMENTS

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

The fair value of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, deferred revenue related to prepaid sales orders 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 (level 2).

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

The fair 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 (level 2).

The royalty financial liability was estimated using a discount rate that results from the estimated future repayment of that obligation which is based on expected sales. 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 (level 3).

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

a) Credit risk:

Trade and other receivables

The Company makes sales to customers that are well-established within their respective industries. Based on previous experience the counterparties had zero default rates and management views this risk as minimal. Approximately 84% of trade receivables are due from two customers at June 30, 2014 and all trade receivables are current. These main customers present good credit quality and historically have a high quality credit rating.

Other receivables represent amounts due for research program claims, government goods and services taxes, and scientific and research tax credits. Management has assessed the credit risk to be low.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $708,490 at June 30, 2014 and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk:

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The Company may be exposed to liquidity risks if it is unable to collect its trade and other receivables balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. In order to manage this liquidity risk, the Company regularly reviews its aged trade receivables listing to ensure prompt collections. 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	1,784,000	-	-	-	1,784,000
Loan payable secured by certain intellectual property due January, 2019.	313,859	627,718	494,944	-	1,436,521
Loan payable secured by a general security agreement due April, 2019.	352,227	704,453	645,749	-	1,702,429
Long-term debt, including interest	200,082	400,164	116,715	-	716,961
Loan payable secured by a forklift due June, 2018.	14,004	28,008	14,004	-	56,016
Royalties interest payable	47,105	-	-	-	47,105
Royalty financial liability	29,668	-	-	-	29,668
Repayable CAAP funding	83,883	167,766	335,536	83,883	671,068
Total	2,824,828	1,928,109	1,606,948	83,883	6,443,768

c) Market risk:

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

1. Foreign currency risk

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

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	647,866	6,479	(6,479)
Financial Liabilities			
Accounts payable and accrued liabilities and Deferred revenue	206,817	(2,068)	2,068
Total increase (decrease)		4,411	(4,411)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial Liabilities			
Long-term debt	921,995	(9,220)	9,220
Total increase (decrease)		(9,220)	9,220

The carrying amount of accounts receivable and accounts payable and accrued liabilities and deferred revenue in USD and long-term debt in Euro represents the Company's exposure at June 30, 2014.

2. Interest rate risk.

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

18. 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, 2013.

19. INCOME PER COMMON SHARE

	Quarters Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss) for the year for basic and diluted earnings per share calculation	$629,966	($251,795)	$807,395	$156,456
Weighted average number of shares outstanding	60,591,860	60,278,948	60,474,252	60,278,948
Potential shares to be issued for options exercisable	348,951	-	636,258	-
Diluted shares outstanding	60,940,811	60,278,948	61,110,510	60,278,948
Income (loss) per share - basic	$0.01	($0.00)	$0.01	$0.00
Income (loss) per share - diluted	$0.01	($0.00)	$0.01	$0.00