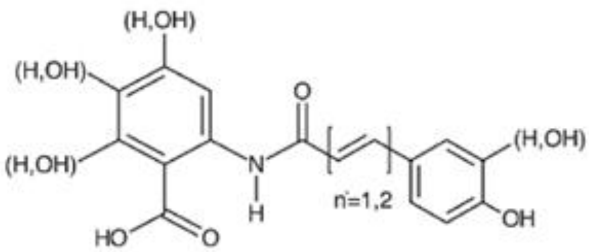
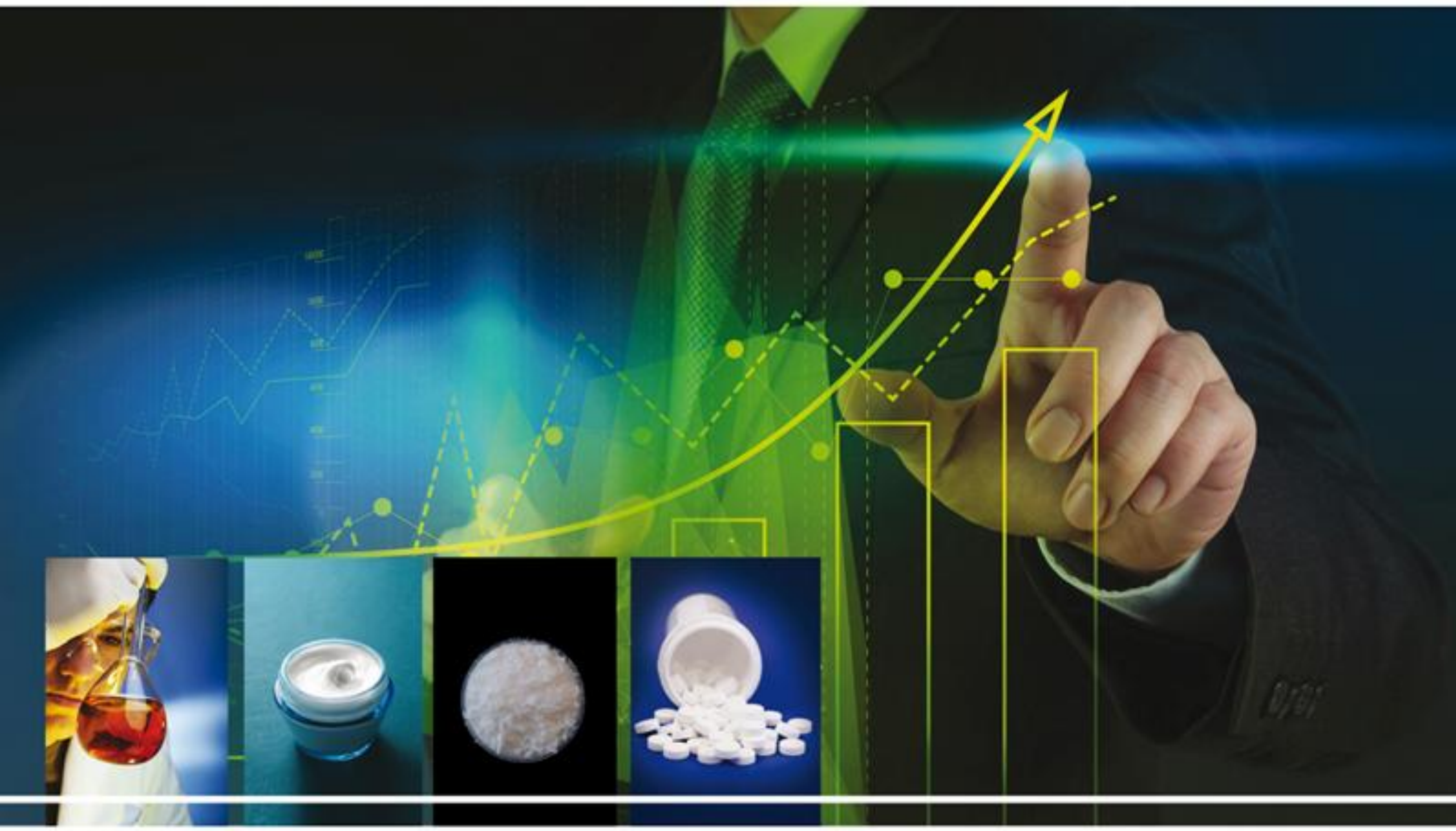


TSX-V: CZO



CEAPRO

Nature Enhancing Life™

Q1 2015

Unaudited Condensed Consolidated Financial Statements for the First Quarter ended March 31, 2015

The MD&A provides commentary on the results of operations for the periods ended March 31, 2015 and 2014, the financial position as at March 31, 2015, and the outlook of Ceapro Inc. (“Ceapro”) based on information available as at May 29, 2015. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at March 31, 2015, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2014, which are prepared in accordance with International Financial Reporting Standards (IFRS) and the Management’s Discussion and Analysis (MD&A) for the year ended December 31, 2014. All comparative percentages are between the periods ended March 31, 2015 and 2014 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 May 29, 2015, 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:

- A potential platform using our *beta glucan* formulations to deliver compounds used for treatments in both personal and healthcare sectors.

- A variety of novel enabling technologies including Pressurized Gas Expansion drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds;

- 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; and

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

Our vision is to be a global leader in developing and commercializing products for the human and animal health markets through the use of proprietary technologies and renewable resources. We act as innovator, advanced processor, and formulator in the development of new products. We deliver our technology to the market through distribution partnerships and direct sales efforts. Our strategic focus is in:

- Identifying unique plant sources and technologies capable of generating novel active natural products;

- Increasing sales and expanding markets for our current active ingredients;

- Developing and marketing additional high-value proprietary therapeutic natural products;

- Developing and improving manufacturing technologies to ensure efficiencies; and

- Advancing new partnerships and strategic alliances to develop new commercial active ingredients with various formulations to expand our markets.

As a knowledge-based enterprise, we will also expand and strengthen our patent portfolio and build the necessary 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 financial instrument and other risks 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 97% of trade receivables are due from three customers at March 31, 2015 (December 31, 2014 – 95% from two customers) and all trade receivables at March 31, 2015 and December 31, 2014 are current. These main customers are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $538,424 at March 31, 2015 (December 31 2014 - $272,845) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk

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

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

	within 1 year	1 to 3 years	3 - 5 years	over 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	1,176,890	-	-	-	1,176,890
Long-term debt obligations	901,450	1,812,041	756,423	21,244	3,491,158
Convertible debentures	76,958	1,017,705	-	-	1,094,663
Repayable CAAP funding	83,883	167,766	167,766	167,766	587,181
Total	2,239,181	2,997,512	924,189	189,010	6,349,892

c) Market risk

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

1. Foreign currency risk

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

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	330,250	3,303	(3,303)
Financial Liabilities			
Accounts payable and accrued liabilities	156,438	(1,564)	1,564
Total increase (decrease)		1,738	(1,738)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial Liabilities			
Long-term debt	779,233	(7,792)	7,792
Total (decrease) increase		(7,792)	7,792

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company's exposure at March 31, 2015.

2. Interest rate risk

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

d) Share price risk

Ceapro's share price is subject to equity market price risk, which may result in significant speculation and volatility of trading due to the uncertainty inherent in the Company's business and the technology industry.

There is a risk that future issuance of common shares may result in material dilution of share value, which may lead to further decline in share price. The expectations of securities analysts and major investors about our financial or scientific results, the timing of such results, and future prospects, could also have a significant effect on the future trading price of Ceapro's shares.

e) 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.

f) Loss of key personnel

Ceapro relies on certain key employees whose skills and knowledge are critical to maintaining the Company's success. Ceapro always strives to identify and retain key employees and always strives to be competitive with compensation and working conditions.

g) Interruption 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.

h) 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.

i) 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

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

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

IFRS 9 ñFinancial instrumentsò (2014)

The IASB recently released IFRS 9 ñFinancial instrumentsò (2014), representing the completion of its project to replace IAS 39 ñFinancial Instruments: Recognition and Measurementò. The new standard introduces extensive changes to IAS 39ôs guidance of the classification and measurement of financial assets and introduces a new ñexpected credit lossò model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

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

IFRS 15 ñRevenue from Contracts with Customersò

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

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

Results of Operations

Periods Ended March 31, 2015, 2014, and 2013

CONSOLIDATED INCOME STATEMENT

$000s except per share data	2015	%	2014	%	2013	%
Total revenues	**1,714**	**100%**	**1,954**	**100%**	**2,012**	**100%**
Cost of goods sold	922	54%	894	46%	962	48%
Gross margin	**792**	**46%**	**1,060**	**54%**	**1,050**	**52%**
Research and product development	106	6%	225	12%	138	7%
General and administration	802	47%	422	22%	436	22%
Sales and marketing	3	0%	1	0%	22	1%
Finance costs	107	6%	92	5%	51	3%
Income (loss) from operations	**(226)**	**-13%**	**320**	**16%**	**403**	**20%**
Other operating income (loss)	(4)	0%	(143)	-7%	5	0%
Income (loss) before tax	**(230)**	**-13%**	**177**	**9%**	**408**	**20%**
Income taxes (recovery)	36	2%	-	0%	-	0%
Net income (loss)	**(194)**	**-11%**	**177**	**9%**	**408**	**20%**
Basic net income (loss) per common share	(0.003)		0.003		0.007	
Diluted net income (loss) per common share	(0.003)		0.003		0.007	

The following sections discuss these results from operations.

Revenue

	Three Months Ended March 31,		Change
$000s	2015	2014	
Total revenues	1,714	1,954	-12%

PRODUCT SALES

Sales in the period ended March 31, 2015 decreased by $240,000 or 12% from the comparative prior period primarily as a result of lower sales volumes of avenanthramides. The impact of the lower sales on revenue were offset partially by the positive impact of a stronger U.S. dollar relative to the Canadian dollar.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

	Three Months Ended March 31,		Change
$000s	2015	2014	
Sales	1,714	1,954	-12%
Cost of goods sold	922	894	3%
Gross margin	792	1,060	-25%
Gross margin %	46%	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 period ended March 31, 2015, cost of goods sold increased by $28,000 or 3%, from $894,000 in 2014 to $922,000. The gross margin in the first quarter of 2015 is lower than the comparative period by 25% due to a combination of lower sales and higher cost of goods sold. The gross margin percentage decreased from 54% in the comparative period to 46% in the current period due mainly to having a product sales mix weighted toward lower margin products; however, it was also significantly impacted by an increase in production and quality control salaries from non-cash share-based payments. In the current period the share based payments allocated to cost of goods sold expense were $70,000 compared with $6,000 in the prior period. The increase in share based payments is a direct result of the higher share price of the Company during the current period when the stock options were granted.

RESEARCH AND PRODUCT DEVELOPMENT

	Three Months Ended March 31,		Change
$000s	2015	2014	
Salaries and benefits	80	127	
Regulatory and patents	9	25	
Other	17	73	
Total research and product development expenditures	106	225	-53%

During the period ended March 31, 2015, research and development expenses decreased by 53% or $119,000 in comparison with the same period of 2014 due to decreased salary costs, lower expenditures on regulatory and patents and other research. The lower salary costs were a result of changing the priorities of some key staff from research and development activities to work on the new production process design for the new manufacturing facility. As the time of these individuals was directly related to the construction of the new production process, their time has been capitalized to the new facility. The lower regulatory and patents costs relate primarily to the timing of patent renewals. The other research expenditures were lower than the prior period because in the comparative period there was significantly more expenditure on two larger research projects.

GENERAL AND ADMINISTRATION

	Three Months Ended March 31,		Change
$000s	2015	2014	
Salaries and benefits	228	155	
Consulting	67	67	
Board of Directors compensation	118	51	
Insurance	31	29	
Accounting and Audit fees	21	15	
Rent	25	25	
Public Company Costs	42	8	
Travel	31	24	
Depreciation	44	16	
Legal	162	4	
Other	33	28	
Total general and administration expenses	802	422	90%

General and administration expenses for the period ended March 31, 2015 increased by $380,000 or 90% from $422,000 to $802,000. The increase was partially due to an increase in salaries and board of director compensation from non-cash share-based payments. In the current period the share based payments allocated to general and administration expense were $176,000 compared with $27,000 in the prior period. The increase is a direct result of the higher share price of the Company during the current period when the stock options were granted. The overall increase was also partially due to the significant legal fees incurred in the current period relating to the AVAC trials. In the current quarter legal fees were $162,000 as compared to $4,000 in the prior period. Public company costs increased by approximately $34,000 and this was primarily due to the services provided from an investor relations program that was entered into late in fiscal 2014 and depreciation expense increased by $28,000 compared to the prior period mainly due to the commencement of depreciation on leasehold improvements for the completed head office section in the new facility.

SALES AND MARKETING

$000s	Three Months Ended March 31, 2015	2014	Change
Courses, Conferences & Advertising	3	-	
Other	-	1	
Total sales and marketing	3	1	200%

Marketing expenses are negligible due to the Company's strategy to sell mostly through a distribution network instead of selling directly to end-users.

FINANCE COSTS

$000s	Three Months Ended March 31, 2015	2014	Change
Interest on royalty financial liability	-	4	
Interest on convertible debentures	14	-	
Interest on long-term debt	11	21	
Transaction costs	6	5	
Royalties	50	48	
Accretion of CAAP loan	13	14	
Accretion of convertible debentures	13	-	
	107	92	16%

Finance costs increased by 16% or $15,000 from $92,000 incurred in the comparative period ended March 31, 2014 to $107,000 incurred in the current period.

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. 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. As at December 31, 2014 royalties on the royalty financial liability were fully accrued and therefore no further royalty expense will be earned on this liability. The final payment to royalty investors of $43,075 was paid during the current period.

Finance costs decreased as interest on long-term debt relating to specific borrowings for the new manufacturing facility have been capitalized to the facility.

The decrease in finance costs discussed above has been offset by the increase relating to the new convertible debentures financing during the period ended March 31, 2015. Finance costs include the interest accrued of $14,000 on the 8% convertible debentures and the accretion expense of $13,000 relating to the discount for the fair value of the liability component being amortized to income over the two year life of the convertible debentures.

OTHER OPERATING LOSS (INCOME)

$000s	Three Months Ended March 31, 2015	2014	Change
Foreign exchange (income) loss	(76)	61	
Loss on disposal of property and equipment	-	4	
Other (income) loss	(10)	-	
Plant relocation costs	91	78	
	5	143	-97%

In the period ended March 31, 2015 the Company incurred a $5,000 other operating loss as compared to an other operating loss of $143,000 in 2014. The loss was significantly lower than the prior year primarily because the Company had foreign exchange income of $76,000 during the current period in comparison with a foreign exchange loss of $61,000 in the same period of 2014. The current period foreign exchange income was partially due to the high US dollar versus the Canadian dollar in comparison with the same period of 2014. A significant portion of the foreign exchange income was also a result of the effect of the lower Euro in comparison with the Canadian dollar on the Company's Euro denominated long-term debt. Plant relocation costs represent costs incurred relating to the new manufacturing facility that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized.

DEPRECIATION AND AMORTIZATION EXPENSES

In the period ended March 31, 2015 the total depreciation and amortization of $99,000 (2014 - $75,000) was allocated as follows: $43,000 to general and administration expense (2014 - $17,000), $36,000 to inventory (2014 - $10,000), and $20,000 (2014 - $48,000) to cost of goods sold. As the head office and R&D sections of the new facility were completed in the fourth quarter of the year ended December 31, 2014, depreciation of the leasehold improvements relating to the completed sections commenced. As a result the current quarter's depreciation charge was higher than the comparative first quarter of the prior year.

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	2015	2014				2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenues	1,714	2,059	2,445	2,432	1,954	1,503	1,997	1,012
Net income (loss)	(194)	97	690	630	177	(117)	123	(252)
Basic net income (loss) per common share	(0.003)	0.002	0.011	0.010	0.003	(0.002)	0.002	(0.004)
Diluted net income (loss) per common share	(0.003)	0.001	0.011	0.010	0.003	(0.002)	0.002	(0.004)

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

Liquidity and Capital Resources

CAPITAL EMPLOYED

$000s	March 31, 2015	December 31, 2014
Non-current assets	6,334	6,035
Current assets	2,005	1,648
Current liabilities	(2,544)	(2,965)
Total assets less current liabilities	5,795	4,718
Non-current liabilities	3,481	2,626
Shareholders' equity	2,314	2,092
Total capital employed	5,795	4,718

Non-current assets increased by $299,000 due to an acquisition of $398,000 of property and equipment (net of grant proceeds) offset by a depreciation provision of $99,000.

Current assets increased by $357,000. Cash increased by $265,000, trade and other receivables decreased by $148,000, prepaid expenses increased by $48,000, and inventories increased by $192,000.

Current liabilities totaling $2,544,000 decreased by the net amount of $421,000 mostly due to a decrease in trade payables and accrued liabilities of $614,000, a decrease in the employee future benefit obligation of $127,000 from the final payment on the obligation, and a decrease in the royalty interest payable of $43,000 from a final payment of the royalty financial liability obligation, which was offset by an increase in deferred revenue of $327,000, an increase in the current portion of long-term debt of $34,000, and an increase in the current portion of the CAAP loan of $2,000.

Non-current liabilities totaling $3,481,000 increased by the net amount of $855,000 mostly due to the convertible debenture financing, for which the liability component was $815,000 at March 31, 2015. Non-current liabilities also increased due to an increase in long-term debt of $30,000 and an increase in the discounted CAAP loan in the amount of $10,000.

Equity of $2,314,000 at March 31, 2015 increased by $222,000 from equity of $2,092,000 at December 31, 2014 due to recognized share-based compensation of $288,000, an increase from recognizing the equity component of convertible debentures of $106,000 and the increase from the exercise of stock options of $22,000 which was offset by the recognition of a net loss of $194,000 for the three months ended March 31, 2015.

NET DEBT

$000s	March 31, 2015	December 31, 2014
Cash and cash equivalents	538	273
Current financial liabilities	2,055	2,675
Non-current financial liabilities	3,481	2,626
Total financial liabilities	5,536	5,301
NET DEBT	4,998	5,028

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

The Company's net debt decreased by $30,000 due to an increase of cash and cash equivalents in the amount of $265,000, a decrease in accounts payable and accrued liabilities $614,000, and a decrease in royalty related obligations of $43,000 which was offset by a long-term debt increase in the amount of $64,000, a CAAP loan discounted amount net increase of $13,000, and an increase from a convertible debenture financing which resulted in a liability component of $815,000 at March 31, 2015.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended March 31, 2015 and 2014.

	Three Months Ended March 31,	
$000s	2015	2014
Sources of funds:		
Funds generated from operations (cash flow)	182	451
Changes in non-cash working capital items	(379)	(94)
Grant used for capital assets	80	85
Share issuance	22	13
Convertible debentures	960	-
Long-term debt	290	525
	1,155	980
Uses of funds:		
Purchase of property and equipment	(193)	(886)
Purchase of leasehold improvements	(263)	(645)
Employee future benefits obligation repayment	(127)	(50)
Interest paid	(47)	(40)
Repayment of royalty financial liability	(43)	-
Transaction costs	(26)	-
Repayment of long term debt	(190)	(99)
	(889)	(1,720)
Net change in cash flows	266	(740)

Net change in cash flow increased by $266,000 during the three month period ended March 31, 2015 in comparison with a decrease of $740,000 for the same period in 2014 primarily due to a higher investment made on its new manufacturing facility in the first quarter of 2014 and more financing raised in the first quarter of 2015 which was partially offset by significant repayment of accounts payable and accrued liabilities in the first quarter of 2015.

The Company is currently in progress to complete its new manufacturing facility which involves substantial capital expenditures for engineering and design, permitting, construction of leaseholds, equipment, as well as other related costs required to meet the strict requirements for major customers. The scope of the original planned manufacturing facility was redefined throughout fiscal 2014 to take advantage of new manufacturing process design opportunities that are expected to provide value to the Company and its shareholders in future years. As a result, the facility has not yet been completed and the overall planned investment for the first phase of the facility has been expanded and is currently estimated at $12,200,000 of which the Company has completed and recorded approximately $7,000,000 at March 31, 2015. As a result of the increased scope of the project, the Company had a working capital deficiency of approximately $538,000 at March 31, 2015 and will require additional financing to complete the first phase of the manufacturing facility.

During the three month period ended March 31, 2015, the Company entered into a new loan agreement that can be drawn to a maximum of $900,000. As at March 31, 2015, only $290,000 of the loan has been received. The remaining proceeds of $610,000 that can be drawn from this new financing will be used to address the working capital deficiency that exists at March 31, 2015 and towards completion of the Company's new manufacturing facility.

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, ongoing capital investment, and current debt repayment, but will still require additional funds in the amount of $3,700,000 to complete the new manufacturing facility.

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 May 29, 2015 were 61,687,281 (May 22, 2014 - 60,403,948). In addition, 3,826,667 stock options as at May 29, 2015 (May 22, 2014 – 3,950,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

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, 2012, the Company was approved for a second agreement for non-repayable funding in the amount of $124,000 from AITF. During the quarter ended March 31, 2015 the received $nil (2014 - $13,750) which was recorded as a reduction of research and project development expenses. This agreement was completed at December 31, 2014.

b) 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 received or recorded as receivable funding of $671,068 to December 31, 2013 under this program and no further funds are expected. The first repayment of $83,884 due December 31, 2014 has been paid.

c) During the year ended December 31, 2011, the Company entered into a Contribution Agreement with Alberta Innovates Bio Solutions (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, and received $690,000 in 2013. The remaining amount of $160,000 is expected to be received in 2015.

d) 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 quarter ended March 31, 2015 the company received $79,640 (2014 - $93,333) which was recorded as a reduction of capitalized expenditures. This project has been completed.

e) During the year ended December 31, 2014, the Company entered into a non-repayable grant agreement with AI-BIO Solutions to provide funding of up to $198,000 for certain research activities. During the year ended December 31, 2014, the Company received $89,100. An amount of $22,117 was expended on the research project and the remaining $66,983 is recorded as deferred revenue at December 31, 2014. The Company anticipates receiving up to $108,900 in 2016.

f) During the year ended December 31, 2014, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $52,500 for certain research activities. During the quarter ended March 31, 2015, the Company received $8,443 (2014 - $nil). This project has been completed.

g) On May 27, 2015, the Company announced that it has entered into a contribution agreement with Alberta Innovates Bio Solutions for a non-repayable funding contribution of $800,000 to implement the commercialization scale-up of the Company's Enabling Pressurized Gas Expanded Technology. The Company anticipates receiving $300,000 in fiscal 2015.

Related Party Transactions

During the quarter ended March 31, 2015, $nil (2014 - $8,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at March 31, 2015, $nil (2014 - $14,000) of royalties were payable to employees and directors.

During the quarter ended March 31, 2015, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $127,000 (2014 – $132,000), and key management personnel received share-based payments of $151,000 (2014 - $22,000).

Amount payable to directors at March 31, 2015 was $36,000 (2014 - $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. filed a statement of defense to refute the claim and the evidentiary portion of the trial was completed in January 2015. All written arguments were completed on March 16, 2015 and have been submitted to the presiding judge. The Company believes it has presented strong defenses to the allegations at trial. However, at this time, the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements for this litigation.

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

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

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

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

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

(d) During the year ended December 31, 2014, the Company entered into a new licence agreement with the University of Alberta for the rights to a technology that would allow the development, production and commercialization of powder formulations that could be used as active ingredients.

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

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

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

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

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

(e) a royalty of 3.0% of net sales generated from other fields.

The Company shall pay a minimum annual advance on earned royalties of $5,000 commencing March 1, 2017 and every year thereafter while the licence agreement remains in force.

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

(f) 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

Ceapro‟s offices and laboratories were moved to a new site in 2014. The successful completion, implementation and commissioning of the production area remains a priority for 2015. In order to continue to serve our customers and prevent any disruption or product shortage, we have produced enough inventory in the existing facility to secure supply until the end of the year.

On the development side, while we will continue to serve our base business in cosmetics through the use of our value drivers avenanthramides and beta glucan, we will remain focused on our long term vision to develop these products into different formulations to enable the transition to other sectors like nutraceuticals and/or pharmaceuticals. The successful production of pharmaceutical grade powder formulation of beta glucan obtained through the use of the PGX technology confirmed the necessity to develop this promising enabling technology at the commercial scale level.

The Company recently obtained the worldwide rights for PGX in all industrial applications and we believe PGX will drive significant value for Ceapro as a global technology platform.

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 First Quarter Ended March 31, 2015

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

Financial Statements

CEAPRO INC.

Consolidated Balance Sheets

Unaudited	March 31, 2015	December 31, 2014
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	538,424	272,845
Trade receivables	418,910	423,567
Other receivables	67,626	210,904
Inventories (note 4)	871,322	679,265
Prepaid expenses and deposits	109,270	61,502
	2,005,552	1,648,083
Non-Current Assets		
Deposit	36,903	36,903
Licenses (note 5)	35,551	36,292
Property and equipment (note 6)	6,261,233	5,961,951
	6,333,687	6,035,146
TOTAL ASSETS	8,339,239	7,683,229
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	1,176,890	1,791,145
Deferred revenue	488,964	162,279
Current portion of long-term debt (note 7)	802,465	768,345
Current portion of employee future benefits obligation (note 9)	-	127,009
Current portion of CAAP loan (note 11)	75,677	72,942
Royalties interest payable	-	43,075
	2,543,996	2,964,795
Non-Current Liabilities		
Convertible debentures (note 8)	815,278	-
Long-term debt (note 7)	2,390,813	2,361,326
CAAP loan (note 11)	275,175	265,075
	3,481,266	2,626,401
Equity		
Share capital (note 10)	6,600,275	6,565,927
Equity component of convertible debentures (note 8)	106,200	-
Contributed surplus	782,739	507,505
Accumulated other comprehensive loss (note 9)	-	(16,916)
Deficit	(5,175,237)	(4,964,483)
	2,313,977	2,092,033
TOTAL LIABILITIES AND EQUITY	8,339,239	7,683,229

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Donald J. Oborowsky"
Director

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

	Three Months Ended March 31, 2015	2014
	$	$
Revenue (note 15)	1,714,485	1,954,347
Cost of goods sold	922,386	894,303
Gross margin	792,099	1,060,044
Research and product development	105,907	224,506
General and administration	801,933	422,259
Sales and marketing	3,167	1,167
Finance costs (note 14)	106,750	92,123
Income (loss) from operations	(225,658)	319,989
Other operating loss (note 13)	(4,430)	(142,560)
Income (loss) before tax	(230,088)	177,429
Income taxes		
Deferred tax recovery	36,250	-
Total comprehensive income (loss) for the period	(193,838)	177,429
Net income (loss) per common share (note 20):		
Basic	(0.00)	0.00
Diluted	(0.00)	0.00
Weighted average number of common shares outstanding	61,543,874	60,355,337

See accompanying notes

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

	Share Capital $	Contributed surplus $	Equity component of convertible debentures $	Deficit $	Accumulated other comprehensive loss $	Total Equity $
Balance December 31, 2014	6,565,927	507,505	-	(4,964,483)	(16,916)	2,092,033
Share-based payments	-	287,749	-	-	-	287,749
Stock options exercised	34,348	(12,515)	-	-	-	21,833
Convertible Debentures	-	-	106,200	-	-	106,200
Future benefit obligation (note 9)	-	-	-	(16,916)	16,916	-
Net loss for the period	-	-	-	(193,838)	-	(193,838)
Balance March 31, 2015	6,600,275	782,739	106,200	(5,175,237)	-	2,313,977
Balance December 31, 2013	6,315,858	503,829	-	(6,558,278)	(16,916)	244,493
Share-based payments	-	46,067	-	-	-	46,067
Stock options exercised	20,056	(7,556)	-	-	-	12,500
Net income for the period	-	-	-	177,429	-	177,429
Balance March 31, 2014	6,335,914	542,340	-	(6,380,849)	(16,916)	480,489

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

	Three Months Ended March 31, 2015 $	2014 $
OPERATING ACTIVITIES		
Net income (loss) for the period	(193,838)	177,429
Adjustments to reconcile net income (loss) to cash and cash equivalents provided by operating activities		
Finance costs	25,005	73,236
Transaction costs	5,521	4,718
Depreciation and amortization	99,566	75,070
Unrealized foreign exchange (gain) loss on long-term debt	(31,926)	55,421
Loss on disposal of property and equipment	-	3,680
Accretion	26,224	14,169
Deferred tax recovery	(36,250)	-
Employee future benefits obligation	-	1,284
Share-based payments	287,749	46,067
Net income for the period adjusted for non-cash items	182,051	451,074
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	4,657	(110,436)
Other receivables	143,278	55,856
Inventories	(192,057)	(46,677)
Prepaid expenses and deposits	(47,767)	88,358
Deferred revenue	326,685	(314,997)
Royalty liability accrued	-	3,987
Accounts payable and accrued liabilities	(614,256)	230,070
Net income (loss) for the period adjusted for non-cash and working capital items	(379,460)	(93,839)
Interest paid	(46,515)	(40,363)
CASH GENERATED FROM (USED IN) OPERATIONS	(243,924)	316,872
INVESTING ACTIVITIES		
Purchase of property and equipment	(193,105)	(885,407)
Purchase of leasehold improvements	(263,147)	(645,283)
CASH USED BY INVESTING ACTIVITIES	(456,252)	(1,530,690)
FINANCING ACTIVITIES		
Long-term debt	290,000	524,820
Convertible debentures	960,000	-
Employee future benefits obligation repayment	(127,009)	(50,000)
Stock options exercised	21,833	12,500
Transaction costs	(25,665)	-
Repayment of long-term debt	(189,984)	(98,659)
Grant used for purchasing of leaseholds, property and equipment	79,655	85,346
Repayment of royalty financial liability	(43,075)	-
CASH GENERATED FROM FINANCING ACTIVITIES	965,755	474,007
Increase (decrease) in cash and cash equivalents	265,579	(739,811)
Cash and cash equivalents at beginning of the period	272,845	1,953,019
Cash and cash equivalents at end of the period	538,424	1,213,208

See accompanying notes

Cash and cash equivalents are comprised of $531,633 (2014 - $206,474) on deposit with financial institutions, $6,791 (2014 - $6,734) held in money market mutual funds, and $nil (2014 - $1,000,000) held in guaranted investment certificates.

1. NATURE OF BUSINESS OPERATIONS AND GOING CONCERN

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

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

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge liabilities in the normal course of operations. However, certain conditions may cast significant doubt upon the validity of this assumption. The Company is currently in progress to complete a new manufacturing facility which involves substantial capital expenditures for engineering and design, permitting, construction of leaseholds, equipment, as well as other related costs required to meet the strict requirements of major customers. The scope of the original planned manufacturing facility was redefined throughout fiscal 2014 to take advantage of new manufacturing process design opportunities that are expected to provide value to the Company and its shareholders in future years. As a result, the facility has not yet been completed and the overall planned investment for the first phase of the facility has been expanded and is currently estimated at $12,200,000 of which the Company has completed and recorded approximately $7,000,000 at March 31, 2015. As a result of the increased scope of the project the Company had a working capital deficiency of $538,444 at March 31, 2015 and will require additional financing to complete the first phase of the manufacturing facility.

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

During the three month period ended March 31, 2015, the Company entered into a new loan agreement that can be drawn to a maximum of $900,000. As at March 31, 2015 only $290,000 of the loan has been received (see note 7). The remaining proceeds of $610,000 that can be drawn from this new financing will be used to address the working capital deficiency that exists at March 31, 2015 and towards completion of the Company's new manufacturing facility. However, the Company will still require additional funds of approximately $3,700,000 to complete the first phase of the manufacturing facility.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

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

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements. The financial statements and notes presented should be read in conjunction with the annual financial statements for the year ended December 31, 2014.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on May 29, 2015.

b) Basis for Presentation

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

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

All intercompany accounts and transactions have been eliminated on consolidation.

3. CHANGES IN ACCOUNTING POLICIES

Future accounting policies not yet adopted

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

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

<u>IFRS 9 ñFinancial instrumentsò (2014)</u>

The IASB recently released IFRS 9 ñFinancial instrumentsò (2014), representing the completion of its project to replace IAS 39 ñFinancial Instruments: Recognition and Measurementò. The new standard introduces extensive changes to IAS 39øs guidance on the classification and measurement of financial assets and introduces a new ñexpected credit lossò model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

4. INVENTORIES

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

	March 31, 2015 $	December 31, 2014 $
Raw materials	273,567	289,784
Work in progress	170,933	43,867
Finished goods	426,822	345,614
	871,322	679,265

Inventories expensed to cost of goods sold during the three month period ended March 31, 2015 are $903,933 (March 31, 2014 - $862,175).

5. LICENCES

During the period ended December 31, 2014 the Company entered into a licence agreement with the University of Alberta for the rights to a technology that would allow the development, production and commercialization of powder formulations that could be used as active ingredients. The agreement expires after a term of 20 years or after the expiration of the last patent obtained whichever event shall occur first. There is no initial licence fee but the Company is required to make royalty payments (see note 17 (d)).

During the year ended December 31, 2012 the Company entered into a licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and commenced amortizing the licence over 15 years, in April 2012. Amortization of $741 has been included in general and administration for the period ended March 31, 2015 (March 31, 2014 - $740) (see note 17(c)).

Cost of licences	$
Balance - December 31, 2014	44,439
Additions	-
Balance - March 31, 2015	44,439
Accumulated amortization	
Balance - December 31, 2014	8,147
Amortization	741
Balance - March 31, 2015	8,888
Net book value	
Balance - March 31, 2015	35,551
Balance - December 31, 2014	36,292

6. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
December 31, 2014	1,715,775	3,685,245	305,446	400,296	2,598,604	8,705,366
additions	187,740	16,120	-	-	273,902	477,762
cost reduced by grant	(17,988)	(1,517)	-	-	(60,150)	(79,655)
disposal	-	-	-	-	-	-
March 31, 2015	1,885,527	3,699,848	305,446	400,296	2,812,356	9,103,473
Accumulated depreciation						
December 31, 2014	-	2,273,654	73,605	260,307	135,849	2,743,415
additions	-	60,275	11,555	10,214	16,781	98,825
disposal	-	-	-	-	-	-
March 31, 2015	-	2,333,929	85,160	270,521	152,630	2,842,240
Carrying value						
March 31, 2015	1,885,527	1,365,919	220,286	129,775	2,659,726	6,261,233
December 31, 2014	1,715,775	1,411,591	231,841	139,989	2,462,755	5,961,951

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Three Months Ended March 31, 2015	19,559	36,437	42,829	98,825
Three Months Ended March 31, 2014	47,981	10,420	14,804	73,205

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

Included in the additions for equipment not available for use are capitalized borrowing costs of $10,755 (December 31, 2014 - $41,169) and capitalized employee benefits of $62,405 (December 31, 2014 - $182,316) arising directly from the construction of the new manufacturing equipment and production process. Included in leasehold improvement additions are capitalized borrowing costs of $10,755 (December 31, 2014 - $38,491) and capitalized employee benefits of $41,293 (December 31, 2014 - $55,324) arising directly from the construction of the new manufacturing facility. The borrowing costs have been capitalized at the rates of the specific borrowings of 3.91% and 2.85%.

7. LONG-TERM DEBT

	March 31, 2015 $	December 31, 2014 $
Loan payable secured by a general security agreement, due January, 2018 (a).	537,850	582,693
Loan payable secured by certain intellectual property, due January, 2019 (b).	1,061,549	1,161,166
Loan payable secured by a general security agreement, due April, 2019 (c).	1,330,104	1,404,672
Loan payable secured by a forklift, due June, 2018 (d).	40,595	43,477
Loan payable secured by a general security agreement, due July, 2020 (e).	290,000	-
Transaction costs	(66,820)	(62,337)
	3,193,278	3,129,671
Less current portion	802,465	768,345
	2,390,813	2,361,326

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

Period Ended March 31, 2015	11,227
Period Ended March 31, 2014	21,476

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

(b) During the year ended December 31, 2013, the Company entered into a new loan agreement with its distribution partner, Symrise, which is secured by certain intellectual property and is due January 2, 2019. The loan, for 1 million Euros, is repayable over 5 years at an interest rate of 2.85%. At March 31, 2015 the loan balance was $1,061,549 in Canadian dollars. Monthly blended principal and interest payments in the amount of 17,902 Euro commenced February 1, 2014. Based on the exchange rate at March 31, 2015, the monthly payment is $24,388 (December 31, 2014 - $25,131) in Canadian dollars.

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

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

(e) During the three month period ended March 31, 2015 the Company entered into a new loan agreement with AFSC. The loan can be drawn to a maximum of $900,000, bears interest at the rate of 3.84% and will mature on July 1, 2020. The proceeds drawn under the loan will be payable interest only up to July 1, 2015 and thereafter will be repayable by monthly blended principal and interest payments in the amount of $16,483. On March 24, 2015, the Company received an initial draw on the loan for aggregate proceeds of $290,000. The loan is secured by a general security agreement covering all present and after acquired personal property subject by a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 7(b).

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

8. CONVERTIBLE DEBENTURES

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

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

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

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

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

The following table summarizes the accounting for the convertible debentures:

	Liability Component $	Equity Component $
Opening balance at December 31, 2014	-	-
Fair value of components at date of issue	815,000	145,000
Deferred income tax liability	-	(36,250)
Transaction costs	(14,541)	(2,550)
Amortization of transaction costs	1,430	-
Accretion of discount on the convertible debentures	13,389	-
Ending balance at March 31, 2015	815,278	106,200

9. EMPLOYEE FUTURE BENEFITS OBLIGATION

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

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

The final payment of $127,009 was paid during the three months ended March 31, 2015. As the pension obligation is now completely extinguished, the actuarial losses of $16,916 that had arisen from previous changes in the discount rate used to measure the obligation, have been reclassified on the Statement of Changes in Equity from accumulated other comprehensive loss to deficit.

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

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

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

10. SHARE CAPITAL

a. Authorized

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

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

b. Issued - Class A common shares

	Three Months Ended March 31, 2015		Year Ended December 31, 2014	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance at beginning of the period	61,423,948	6,565,927	60,278,948	6,315,858
Stock options exercised	208,333	34,348	1,145,000	250,069
Balance at end of the period	61,632,281	6,600,275	61,423,948	6,565,927

c. Stock options outstanding are as follows:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	March 31, 2015 Number of Options	December 31, 2014 Number of Options
0.47	0.50	2025	9.9	100,000	-
0.60	0.64	2025	9.8	910,000	-
0.37	0.27	2024	9.6	150,000	150,000
0.13	0.14	2024	9.2	250,000	250,000
0.08	0.10	2024	8.8	810,000	810,000
0.05	0.10	2023	7.8	846,667	1,065,000
0.09	0.10	2022	7.3	300,000	300,000
0.11	0.15	2016	1.2	255,000	275,000
0.06	0.10	2015	0.4	270,000	270,000
			7.7	3,891,667	3,120,000

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

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the three month period ended March 31, 2015 the Company granted 1,040,000 (March 31, 2014 ï 930,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock, life of the options and forfeiture rate. The weighted average risk-free rate used in 2015 was 1.74% (2014 ï 2.34%), the weighted average expected volatility was 117% (2014 - 107%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2014 ï 10 years), forfeiture rate was 0% (2014 - 0%), the weighted average share price was $0.63 (2014 ï $0.09), the weighted average exercise price was $0.63 (2014 ï $0.10), and the expected dividends were nil (2014 - nil). The weighted average grant date fair value of options granted in the three month period ended March 31, 2015 was $0.59 (2014 - $0.09) per option.

11. CAAP LOAN

The balance of repayable contribution is derived as follows:

	Three Months Ended, March 31, 2015 $	Year Ended December 31, 2014 $
Opening balance	338,017	363,471
Repayment	-	(83,884)
Accretion of CAAP loan	12,835	58,430
	350,852	338,017
Less current portion	75,677	72,942
	275,175	265,075

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

12. RELATED PARTY TRANSACTIONS

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

	Three Months Ended March 31,	
	2015 $	2014 $
Royalties earned by employees and directors	-	7,814
Amounts payable to employees and directors included in royalties payable	-	13,781
Key management salaries, short-term benefits, consulting fees and director fees	127,114	131,650
Key management personnel share based payments	150,740	21,664
Amount payable to directors	36,250	28,750

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

13. OTHER OPERATING LOSS (INCOME)

	Three Months Ended March 31, 2015	2014
	$	$
Foreign exchange (income) loss	(76,442)	60,639
Loss on disposal of property and equipment	-	3,680
Other income	(9,860)	-
Plant relocation costs	90,732	78,241
	4,430	142,560

14. FINANCE COSTS

	Three Months Ended March 31, 2015	2014
	$	$
Interest on royalty financial liability	-	4,001
Interest on convertible debentures	13,778	-
Interest on long-term debt	11,227	21,476
Transaction costs	5,521	4,718
Royalties	50,000	47,500
Accretion of CAAP loan	12,835	14,169
Accretion of convertible debentures	13,389	-
Bank charges	-	259
	106,750	92,123

15. SEGMENTED INFORMATION

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

	Three Months Ended March 31, 2015	2014
	$	$
United States	1,281,148	1,592,956
Germany	408,087	329,388
Other	23,943	32,003
Canada	1,307	-
	1,714,485	1,954,347

16. EMPLOYEE BENEFITS

	Three Months Ended March 31,	
	2015	2014
	$	$
Employee benefits	870,086	583,331

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

17. CONTINGENCIES AND COMMITMENTS

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

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

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

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

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

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

(d) During the year ended December 31, 2014 the Company entered into a new licence agreement with the University of Alberta for the rights to a technology that would allow the development, production and commercialization of powder formulations that could be used as active ingredients.

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

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

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

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

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

(e) a royalty of 3.0% of net sales generated from other fields.

The Company shall pay a minimum annual advance on earned royalties of $5,000 commencing March 1, 2017 and every year thereafter while the licence agreement remain in force.

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

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

18. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

	March 31, 2015		December 31, 2014	
	Book value	Fair value	Book value	Fair value
Loans and receivables:				
Cash and cash equivalents	$ 538,424	$ 538,424	$ 272,845	$ 272,845
Trade and other receivables	486,536	486,536	634,471	634,471
Other financial liabilities:				
Accounts payable and accrued liabilities	$ 1,176,890	$ 1,176,890	$ 1,791,145	$ 1,791,145
Long-term debt	3,193,278	3,193,278	3,129,671	3,129,671
Convertible debentures	815,278	815,278	-	-
CAAP loan	350,852	350,852	338,017	338,017
Royalties interest payable	-	-	43,075	43,075

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

a) Credit risk:

Trade and other receivables

The Company makes sales to customers that are well-established within their respective industries. Based on previous experience the counterparties had zero default rates and management views this risk as minimal. Approximately 97% of trade receivables are due from three customers at March 31, 2015 (December 31, 2014 – 95% from two customers) and all trade receivables at March 31, 2015 and December 31, 2014 are current. These main customers are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $538,424 at March 31, 2015 (December 31, 2014 - $272,845) and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk:

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

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

	within 1 year	1 to 3 years	3 - 5 years	over 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	1,176,890	-	-	-	1,176,890
Long-term debt obligations	901,450	1,812,041	756,423	21,244	3,491,158
Convertible debentures	76,958	1,017,705	-	-	1,094,663
Repayable CAAP funding	83,883	167,766	167,766	167,766	587,181
Total	2,239,181	2,997,512	924,189	189,010	6,349,892

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	330,250	3,303	(3,303)
Financial Liabilities			
Accounts payable and accrued liabilities	156,438	(1,564)	1,564
Total increase (decrease)		1,738	(1,738)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial Liabilities			
Long-term debt	779,233	(7,792)	7,792
Total (decrease) increase		(7,792)	7,792

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD and long-term debt in Euro represents the Company’s exposure at March 31, 2015.

2. Interest rate risk.

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

19. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the period ended March 31, 2015.

20. INCOME PER COMMON SHARE

	Three Months Ended March 31,	
	2015	2014
Net income (loss) for the period for basic and diluted earnings per share calculation	($193,838)	$177,429
Weighted average number of shares outstanding	61,543,874	60,355,337
Effect of dilutive stock options	-	1,666,667
Diluted weighted average number of common shares	61,543,874	62,022,004
Income (loss) per share - basic	($0.00)	$0.00
Income (loss) per share - diluted	($0.00)	$0.00

As the Company was in a net loss position for the three month period ended March 31, 2015, the impact of the conversion of convertible securities and convertible debt is anti-dilutive.

For the period ended March 31, 2014, 1,150,000 of the Company's 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.

21. SUBSEQUENT EVENTS

a) Subsequent to the three month period ended March 31, 2015 the Company announced the intention to scale-up its proprietary Enabling Pressurized Gas Expanded Technology (PGX) to commercial and demonstration levels. As a support to the project, estimated at $2 Million, the Company will receive a non-repayable funding contribution of $800,000 from Alberta Innovates Bio Solutions (AI Bio) to implement the commercialization scale-up of the PGX technology.

b) Subsequent to the three month period ended March 31, 2015 the Company issued 150,000 stock options to a director. The stock options have an exercise price of $0.36 per common share and expire in 10 years.

c) Subsequent to the three month period ended March 31, 2015, 55,000 stock options were exercised for $0.15 per common share and gross proceeds of $8,250.