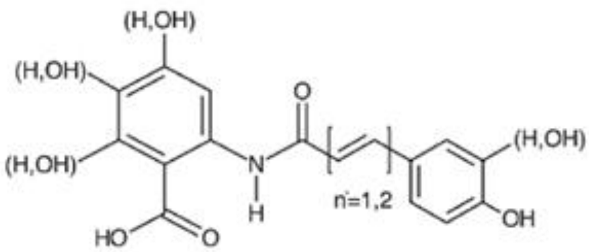
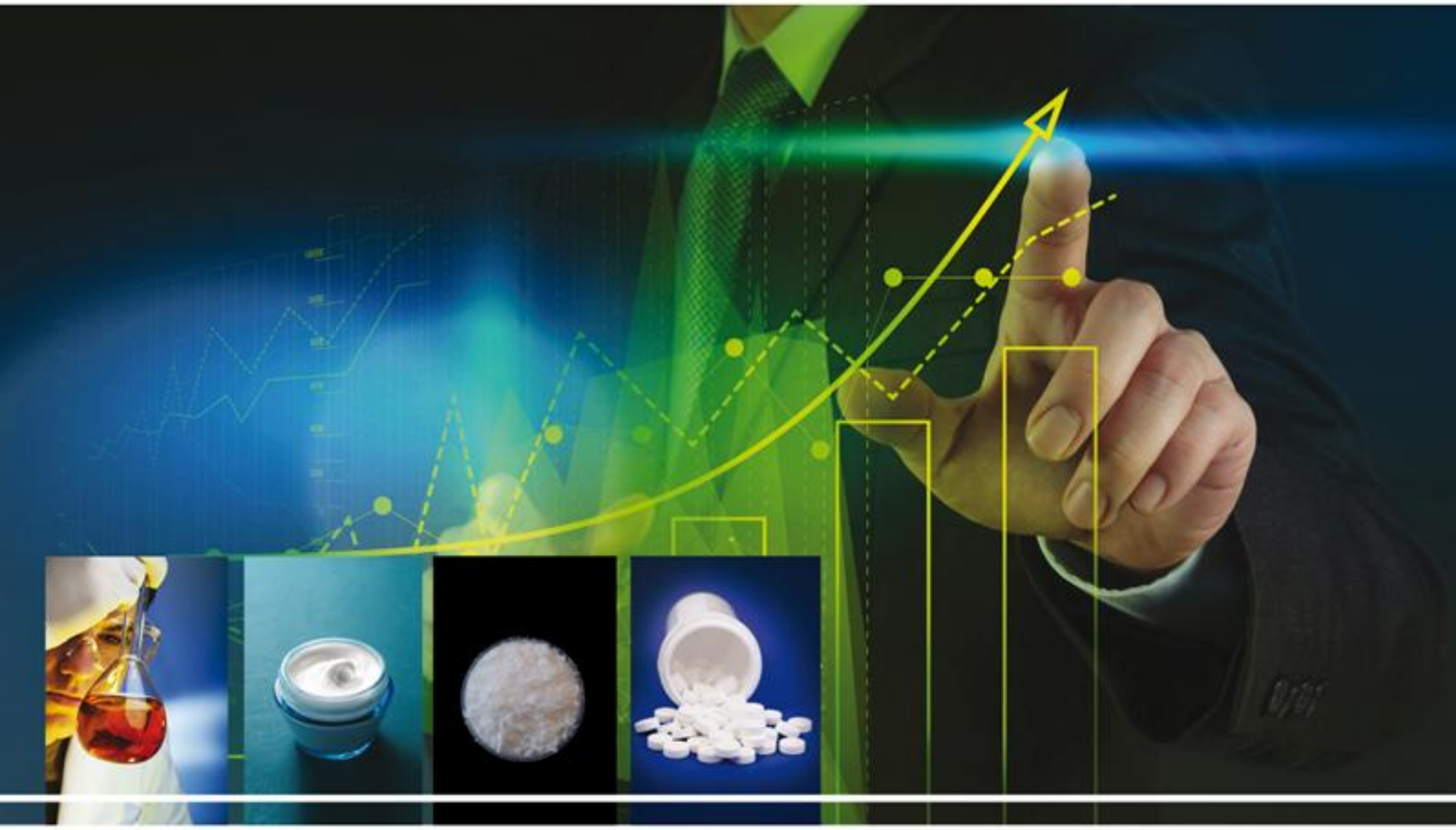


TSX-V: CZO



CEAPRO
Nature Enhancing Life™

Q2 2015

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

The MD&A provides commentary on the results of operations for the periods ended June 30, 2015 and 2014, the financial position as at June 30, 2015, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at August 25, 2015. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at June 30, 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 June 30, 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 August 25, 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 96% of trade receivables are due from two customers at June 30, 2015 (December 31, 2014 – 95% from two customers) and all trade receivables at June 30, 2015 and December 31, 2014 are current. These main customers are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

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

There are no past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's trade and other receivables 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	1,208,798	-	-	-	1,208,798
Long-term debt	1,008,389	1,959,453	780,370	19,260	3,767,472
Convertible debentures	76,906	1,038,610	-	-	1,115,516
CAAP loan	83,883	167,766	167,766	167,766	587,181
Total	2,377,976	3,165,829	948,136	187,026	6,678,967

c) Market risk

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

1. Foreign currency risk

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

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

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

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

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

2. Interest rate risk

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

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 “Financial instruments” (2014)

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

The Company’s management 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 “Revenue from Contracts with Customers”

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 “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 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 Company’s management has not yet assessed the impact of IFRS 15 on these consolidated financial statements.

Results of Operations

Periods Ended June 30, 2015 and 2014

CONSOLIDATED INCOME STATEMENT

	Quarters Ended June 30,				Six Months Ended June 30,			
$000s except per share data	2015	**%**	2014	%	2015	%	2014	%
Total revenues	**2,439**	**100%**	**2,432**	**100%**	**4,154**	**100%**	**4,386**	**100%**
Cost of goods sold	690	28%	988	41%	1,613	39%	1,882	43%
Gross margin	**1,749**	**72%**	**1,444**	**59%**	**2,541**	**61%**	**2,504**	**57%**
Research and product development	237	10%	189	8%	343	8%	414	9%
General and administration	629	26%	462	19%	1,431	34%	884	20%
Sales and marketing	3	0%	6	0%	6	0%	7	0%
Finance costs	37	2%	60	2%	144	3%	152	3%
Income from operations	**843**	**35%**	**727**	**30%**	**617**	**15%**	**1,047**	**24%**
Other operating loss	(185)	-8%	(97)	-4%	(189)	5%	(240)	-5%
Income before tax	**658**	**27%**	**630**	**26%**	**428**	10%	**807**	18%
Income taxes (recovery)	-	0%	-	0%	36	1%	-	0%
Net income	**658**	**27%**	**630**	**26%**	**464**	**11%**	**807**	**18%**
Basic net income per common share	0.011		0.010		0.008		0.013	
Diluted net income per common share	0.010		0.010		0.007		0.013	

The following sections discuss these results from operations.

Revenue

$000s	Quarters Ended June 30, 2015	2014	Change	Six Months Ended June 30, 2015	2014	Change
Total revenues	2,439	2,432	0%	4,154	4,386	-5%

PRODUCT SALES

Sales to the personal care industry in the second quarter ended June 30, 2015 have been restored back to similar levels experienced in fiscal 2014 and were even slightly higher than sales from the comparative prior period.

Although there was a significant improvement in sales experienced between Q1 and Q2 of fiscal 2015, overall sales to the personal care industry for the first six months of 2015 remain 5% lower than the comparative period in fiscal 2014 primarily as a result of a different product mix. 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

$000s	Quarters Ended June 30, 2015	2014	Change	Six Months Ended June 30, 2015	2014	Change
Sales	2,439	2,432	0%	4,154	4,386	-5%
Cost of goods sold	690	988	-30%	1,613	1,882	-14%
Gross margin	1,749	1,444	21%	2,541	2,504	1%
Gross margin %	72%	59%		61%	57%	

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 fiscal 2015 cost of goods sold decreased by $298,000 or 30%, from $988,000 in 2014 to $690,000. The lower cost of goods sold results in an increase in the gross margin in the second quarter of fiscal 2015 which is higher than the comparative period by 21% partially due to continuing to have favourable feedstock and raw material available and partially due to the realization of efficiencies from manufacturing improvements implemented in the first quarter of fiscal 2015. The most notable improvement being the introduction of an additional shift that allowed production in process to continue to completion without interruption, minimizing additional production interruption expenses and expanding output. The gross margin percentage increased from 59% in the comparative period to 72% in the current quarter due in part to the lower cost of goods sold as indicated above and partially due to a product sales mix in the current quarter being weighted towards higher margin products.

During the first six months of fiscal 2015 cost of goods sold decreased by $269,000 or 14% from $1,882,000 in 2014 to $1,613,000. The decrease in cost of goods sold and the overall improvement in the gross margin percentage from 57% in fiscal 2014 to 61% in fiscal 2015 is due to the same factors experienced in Q2 of fiscal 2015 but were lower than the second quarter results because the improvement was offset partially by an increase in production and quality control salary expenses from additional production staff hired and from the large non-cash share based payment accounting charge that resulted from granting stock options to production employees in the first quarter of fiscal 2015. Although stock options were also granted to production employees in the first quarter of fiscal 2014, the accounting charge was significantly lower in the prior year because the Company's share price at that time was significantly lower.

RESEARCH AND PRODUCT DEVELOPMENT

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2015	2014		2015	2014	
Salaries and benefits	66	120		146	247	
Regulatory and patents	93	79		102	104	
Other	77	(23)		94	50	
	236	176	34%	342	401	-15%
Product development - Ceaprove®	1	13	-92%	1	13	-92%
Total research and product development expenditures	237	189	25%	343	414	-17%

During the second quarter of fiscal 2015 research and development expenses before *CeaProve®* development increased by 34% or $60,000 in comparison with the same period in fiscal 2014 due to lower salaries and benefits expense offset by higher regulatory and patent expenses and other research and development. In fiscal 2014, other research and development expenses were significantly lower due to the receipt of government funding which offset the expenses. The lower salary costs in fiscal 2015 are a result of changing the priorities of some key staff from other research and development activities to work on the new production process design for the new manufacturing facility. As the time of these individuals is directly related to the construction of the new production process, their time has been capitalized to the new facility.

During the six month period ended June 30, 2015, research and development expenses before *CeaProve®* decreased by 15% or $59,000 in comparison with the same period of 2014 due to decreased salary costs as described above offset by higher expenditures on other research and development expenditures.

The *CeaProve®* expenditures for fiscal 2015 and fiscal 2014 relate to patent costs and the difference between the current periods and the comparative periods relate to the timing of patent renewals.

GENERAL AND ADMINISTRATION

$000s	Quarters Ended June 30, 2015	2014	Change	Six Months Ended June 30, 2015	2014	Change
Salaries and benefits	200	142		428	297	
Consulting	65	67		132	134	
Board of Directors compensation	90	45		208	96	
Insurance	29	28		60	57	
Accounting and Audit fees	16	29		37	44	
Rent	21	28		46	53	
Public Company Costs	76	36		118	44	
Travel	34	38		65	62	
Depreciation	44	9		88	25	
Legal	13	8		175	12	
Other	41	32		74	60	
Total general and administration expenses	629	462	36%	1,431	884	62%

General and administration expenses for the second quarter of fiscal 2015 increased by $167,000 or 36% primarily due to higher salaries and benefits expense as a result of additional hires, a lump sum payment to a former Officer, higher public company costs as a result of the services provided from an investor relations program that was entered into late in fiscal 2014, higher depreciation expense as a result of the commencement of depreciation on leasehold improvements for the completed head office section in the new facility, and higher board of directors compensation expense resulting from a non-cash accounting charge recorded for the granting of stock options in the quarter to the Company's new director.

During the six month period ended June 30, 2015 general and administration expenses increased by $547,000 or 62% from $884,000 to $1,431,000. The increase was due to the same factors that caused the increase in the second quarter as well as due to the significant legal fees incurred in the first quarter of fiscal 2015 relating to the AVAC trials. Legal fees in fiscal 2015 are $175,000 as compared to $12,000 in the prior period. In addition to the stock options granted to the new director in the second quarter, options were also granted to employees and the remaining board of directors in the first quarter. As a result of the higher company share price at the time of that grant, the share based payment expense recorded was considerably higher than that recorded in the prior period. Share based payment expense is an accounting charge that does not impact cash flows as no actual payment is made. In the six month period ended June 30, 2015 the accounting charge for share based payments allocated to general and administration expense is $252,000 as compared to $35,000 recorded in fiscal 2014 and the charge is reflected in salaries and benefits and board of directors compensation expenses.

SALES AND MARKETING

$000s	Quarters Ended June 30, 2015	2014	Change	Six Months Ended June 30, 2015	2014	Change
Courses, Conferences & Advertising	2	4		5	4	
Other	1	2		1	3	
Total sales and marketing	3	6	-50%	6	7	-14%

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

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2015	2014		2015	2014	
Interest on royalty financial liability	-	3		-	7	
Interest on convertible debenture	(14)	-		-	-	
Interest on long-term loan	15	39		26	60	
Transaction costs	6	4		12	9	
Royalties	-	-		50	48	
Accretion of CAAP loan	13	14		26	28	
Accretion of convertible debenture	17	-		30	-	
	37	60	-38%	144	152	-5%

Finance costs decreased by 38% or $23,000 from $60,000 incurred in the comparative quarter ended June 30, 2014 to $37,000 incurred in the current quarter. Finance costs for the six month period ended June 30, 2015 also decreased by 5% from the comparative period from $152,000 to $144,000.

Finance costs decreased primarily because interest on long-term debt relating to specific borrowings for the new manufacturing facility have been capitalized to the facility in fiscal 2015 but were still disclosed as a financing cost during the first six months of fiscal 2014.

The decrease in finance costs discussed above has been offset by the increase relating to the new convertible debentures financing that occurred during the first six months of fiscal 2015. The interest on the 8% convertible debentures has also been capitalized to the new manufacturing facility but the accretion expense for the six month period of $30,000 remains part of finance costs.

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.

OTHER OPERATING LOSS (INCOME)

	Quarters Ended June 30,		Change	Six Months Ended June 30,		Change
$000s	2015	2014		2015	2014	
Foreign exchange loss (income)	101	(41)		25	20	
Loss on write off of licence	-	26		-	26	
Loss on disposal of property and equipment	-	-		-	4	
Other (income)	(4)	(3)		(15)	(3)	
Plant relocation costs	88	115		179	193	
	185	97	91%	189	240	-21%

The overall decrease in other operating loss of $51,000 from $240,000 in the first six months of fiscal 2014 to $189,000 is primarily a result of a one-time charge of $26,000 in the prior period for the write-off of a licence that was recognized and an increase of $12,000 in other miscellaneous income.

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. In the first six months of fiscal 2015 these costs are lower than that of the comparative period but overall remain fairly consistent.

Foreign exchange loss for the six months ended June 30, 2015 is slightly higher than that of the comparative period. The Company recorded a significant foreign exchange gain in the first quarter of 2015 which was offset by an even more significant foreign exchange loss in the second quarter of 2015. The foreign exchange fluctuations are driven by a stronger US dollar that positively impacts revenues which are offset by losses on the Euro denominated debt due to a slightly stronger Euro in the first six months of the year, as well as the translation of US dollar denominated accounts payable and deferred revenue balances, and from the timing of the realization of the these balances.

DEPRECIATION AND AMORTIZATION EXPENSES

In the six month period ended June 30, 2015 the total depreciation and amortization of $198,000 (2014 - $138,000) was allocated as follows: $90,000 to general and administration expense (2014 - $25,000), $47,000 to inventory (2014 - $23,000), and $61,000 (2014 - $90,000) 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 period's depreciation charge was higher than the comparative period 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues	2,439	1,714	2,059	2,445	2,432	1,954	1,503	1,997
Net income (loss)	658	(194)	97	690	630	177	(117)	123
Basic net income (loss) per common share	0.011	(0.003)	0.002	0.011	0.010	0.003	(0.002)	0.002
Diluted net income (loss) per common share	0.010	(0.003)	0.001	0.011	0.010	0.003	(0.002)	0.002

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	June 30, 2015	December 31, 2014
Non-current assets	7,002	6,035
Current assets	2,569	1,648
Current liabilities	(2,811)	(2,965)
Total assets less current liabilities	6,760	4,718
Non-current liabilities	3,672	2,626
Shareholders' equity	3,088	2,092
Total capital employed	6,760	4,718

Non-current assets increased by $967,000 due to an acquisition of $1,163,000 of property and equipment (net of grant proceeds) offset by a depreciation provision of $198,000, and increasing long-term deposits by $2,000.

Current assets increased by $921,000. Cash increased by $277,000, trade and other receivables increased by $207,000, prepaid expenses increased by $60,000, and inventories increased by $377,000.

Current liabilities totaling $2,811,000 decreased by the net amount of $154,000 mostly due to a decrease in trade payables and accrued liabilities of $582,000, 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 $462,000, an increase in the current portion of long-term debt of $131,000, and an increase in the current portion of the CAAP loan of $5,000.

Non-current liabilities totaling $3,672,000 increased by the net amount of $1,046,000 mostly due to the convertible debenture financing, for which the liability component was $834,000 at June 30, 2015. Non-current liabilities also increased due to an increase in long-term debt of $191,000 and an increase in the discounted CAAP loan in the amount of $21,000.

Equity of $3,088,000 at June 30, 2015 increased by $996,000 from equity of $2,092,000 at December 31, 2014 due to recognized share-based compensation of $396,000, an increase from recognizing the equity component of convertible debentures of $106,000, the increase from the exercise of stock options of $30,000, and the recognition of net income of $464,000 for the six months ended June 30, 2015.

NET DEBT

$000s	June 30, 2015	December 31, 2014
Cash and cash equivalents	550	273
Current financial liabilities	2,186	2,675
Non-current financial liabilities	3,672	2,626
Total financial liabilities	5,858	5,301
NET DEBT	5,308	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 increased by $280,000 due a long-term debt increase of $715,000 from draws on the new loan agreement with AFSC, CAAP loan discounted amount net increase of $26,000, and an increase from a convertible debenture financing which resulted in a liability component of $834,000 at June 30, 2015, which were offset by a reduction in long-term debt from repayments and foreign exchange adjustments of $390,000, a decrease in long term debt from transaction costs on the new loan agreement net of amortization in the amount of $3,000, a decrease in accounts payable and accrued liabilities of $582,000, a decrease in royalty related obligations of $43,000, and an increase of cash and cash equivalents in the amount of $277,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended June 30, 2015 and 2014.

	Quarters Ended June 30,		Six Months Ended June 30,	
$000s	2015	2014	2015	2014
Sources of funds:				
Funds generated from operations (cash flow)	922	798	1,104	1,198
Changes in non-cash working capital items	(386)	(108)	(765)	(207)
Grant used for capital assets	-	126	80	211
Share issuance	8	107	30	120
Convertible debentures	-	-	960	-
Long-term debt, net of repayments	425	546	715	1,071
	969	1,469	2,124	2,393
Uses of funds:				
Purchase of property and equipment	(380)	(622)	(573)	(1,508)
Purchase of leasehold improvements	(327)	(943)	(590)	(1,588)
Employee future benefits obligation repayment	-	(100)	(127)	(150)
Interest paid	(59)	(30)	(106)	(70)
Repayment of royalty financial liability	-	(68)	(43)	(68)
Transaction costs	(3)	-	(29)	-
Repayment of long term debt	(189)	(211)	(379)	(254)
	(958)	(1,974)	(1,847)	(3,638)
Net change in cash flows	11	(505)	277	(1,245)

Net change in cash flow increased by $277,000 during the six month period ended June 30, 2015 in comparison with a decrease of $1,245,000 for the same period in 2014 primarily due to a higher investment made on its new manufacturing facility in the first six months of 2014 and more funds raised from financings in the first six months of 2015 which was partially offset by significant repayment of accounts payable and accrued liabilities in the first six months 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 from major customers. The scope of the original planned manufacturing facility was redefined throughout fiscal 2014 to take advantage of new manufacturing process design opportunities that are expected to provide value to the Company and its shareholders in future years. As a result, the facility has not yet been completed and the overall planned investment for the first phase of the facility has been expanded and is still currently estimated at $12,200,000 of which the Company has completed and recorded approximately $7,700,000 at June 30, 2015. As a result of the increased scope of the project, the Company had a working capital deficiency of approximately $242,000 at June 30, 2015 and will require additional financing to complete the first phase of the manufacturing facility.

During the six month period ended June 30, 2015, the Company entered into a new loan agreement that can be drawn to a maximum of $900,000. As at June 30, 2015, $715,000 of the loan has been received. The remaining proceeds of $185,000 were drawn on this loan at the end of July and have been used to address the working capital deficiency that existed at June 30, 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 currently estimated 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 August 25, 2015 were 61,927,281 (July 29, 2014 – 61,228,948). In addition, 3,756,667 stock options as at August 25, 2015 (July 29, 2014 – 3,290,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Subsequent to the six month period ended June 30, 2015, 240,000 stock options were exercised by directors for $0.10 per common share and gross proceeds of $24,000.

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 six months ended June 30, 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. During the six months ended June 30, 2015 the full amount was expended on the research project. 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 first six months ended March 31, 2015, the Company received $8,443 (2014 - $nil). This project has been completed.

g) During the six months ended June 30, 2015, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding for up to $52,000 for certain research activities. The Company anticipates receiving up to $52,000 in 2016.

h) During the six months ended June 30, 2015, the Company 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. During the six months ended June 30, 2015 the Company received $50,000 which has been recorded as deferred revenue at June 30, 2015. The Company anticipates receiving an additional $250,000 during the remainder of fiscal 2015.

Related Party Transactions

During the six month period ended June 30, 2015, $nil (2014 - $17,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at June 30, 2015, $nil (2014 - $9,000) of royalties were payable to employees and directors.

During the six month period ended June 30, 2015, $1,000 (2014 - $nil) of interest was earned by a company controlled by an officer from its $25,000 (2014 - $nil) investment in the convertible debenture financing.

During the six month period ended June 30, 2015, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $266,000 (2014 – $255,000) and share based payments expense for key management personnel was $220,000 (2014 - $27,000).

Amount payable to directors at June 30, 2015 was $69,000 (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 1st and July 1st, subject to a minimum annual royalty payment according to the schedule below:

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

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

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

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

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

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

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

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

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

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

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

The successful completion, implementation and commissioning of the production area remains our top priority for the second half of fiscal 2015. In order to continue to serve our customers and prevent any disruption or product shortage, we will continue to produce sufficient levels of inventory in the existing facility to satisfy the requirements of our customers.

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 pharmaceuticals. The successful production of pharmaceutical grade powder formulation of beta glucan obtained through the use of the PGX Technology confirmed the decision to develop this promising enabling technology at the commercial scale level. This decision is reinforced by promising results recently obtained from analysis of samples from different industrial sources. Attaining worldwide rights for PGX in all industrial applications was a major milestone and has triggered significant changes in terms of the scope and magnitude of our contemplated scale-up for this innovative technology platform to be exploited in our upcoming world-class manufacturing facility.

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 Second Quarter Ended June 30, 2015

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

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

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

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

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

See accompanying notes

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

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

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

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

See accompanying notes

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

1. NATURE OF BUSINESS OPERATIONS AND GOING CONCERN

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

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

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

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

b) Basis for Presentation

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

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

All intercompany accounts and transactions have been eliminated on consolidation.

3. CHANGES IN ACCOUNTING POLICIES

Future accounting policies not yet adopted

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

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

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

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

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

<u>IFRS 15 "Revenue from Contracts with Customers"</u>

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

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

4. INVENTORIES

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

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

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

5. LICENCES

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

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

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

6. PROPERTY AND EQUIPMENT

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	594,855	16,770	-	1,100	629,617	1,242,342
cost reduced by grant	(17,988)	(1,517)	-	-	(60,150)	(79,655)
disposal	-	-	-	-	-	-
June 30, 2015	2,292,642	3,700,498	305,446	401,396	3,168,071	9,868,053
Accumulated depreciation						
December 31, 2014	-	2,273,654	73,605	260,307	135,849	2,743,415
additions	-	120,749	23,110	20,456	31,750	196,065
disposal	-	-	-	-	-	-
June 30, 2015	-	2,394,403	96,715	280,763	167,599	2,939,480
Carrying value						
June 30, 2015	2,292,642	1,306,095	208,731	120,633	3,000,472	6,928,573
December 31, 2014	1,715,775	1,411,591	231,841	139,989	2,462,755	5,961,951

Depreciation expense is allocated to the following expense categories:

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

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

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

7. LONG-TERM DEBT

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

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

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

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

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

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

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

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

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

8. CONVERTIBLE DEBENTURES

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

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

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

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

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

The following table summarizes the accounting for the convertible debentures:

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

9. EMPLOYEE FUTURE BENEFITS OBLIGATION

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

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

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

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

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

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

10. SHARE CAPITAL

a. Authorized

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

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

b. Issued - Class A common shares

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

c. Stock options outstanding are as follows:

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

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

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

11. CAAP LOAN

The balance of repayable contribution is derived as follows:

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

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

12. RELATED PARTY TRANSACTIONS

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

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

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

13. OTHER OPERATING LOSS

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

14. FINANCE COSTS

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

15. SEGMENTED INFORMATION

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

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

16. EMPLOYEE BENEFITS

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

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

17. CONTINGENCIES AND COMMITMENTS

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

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

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

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

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

a) Credit risk:

Trade and other receivables

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

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

Cash and cash equivalents

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

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

b) Liquidity risk:

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The Company may be exposed to liquidity risks if it is unable to collect its trade and other receivables balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. In order to manage this liquidity risk, the Company regularly reviews its aged trade receivables listing to ensure prompt collections.

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

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

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

c) Market risk:

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

1. Foreign currency risk

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

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

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

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

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

2. Interest rate risk.

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

19. CAPITAL DISCLOSURES

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

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

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

20. INCOME PER COMMON SHARE

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

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

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

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