

Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the periods ended September 30, 2015 and 2014, the financial position as at September 30, 2015, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at November 10, 2015. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at September 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 September 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 November 10, 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 95% of trade receivables are due from three customers at September 30, 2015 (December 31, 2014 – 95% from two customers) and all trade receivables at September 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 research and development 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 \$811,083 at September 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	1,694,267	-	-	-	1,694,267
Long-term debt	1,085,290	2,033,693	675,159	-	3,794,142
Convertible debentures	76,906	998,610	-	-	1,075,516
CAAP loan	83,883	167,766	167,766	167,766	587,181
Total	2,940,346	3,200,069	842,925	167,766	7,151,106

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	429,821	4,298	(4,298)
Financial Liabilities			
Accounts payable and accrued liabilities	201,845	(2,018)	2,018
Total increase (decrease)		2,280	(2,280)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial Liabilities			
Long-term debt	682,350	(6,824)	6,824
Total (decrease) increase		(6,824)	6,824

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 September 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 may 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.

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”

The IASB released IFRS 9 “Financial instruments”, 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, 2018. The Company’s management has not yet assessed the impact of IFRS 15 on these consolidated financial statements.

Results of Operations

Periods Ended September 30, 2015 and 2014

CONSOLIDATED INCOME STATEMENT

<i>\$000s except per share data</i>	Quarters Ended September 30,				Nine Months Ended September 30,			
	2015	%	2014	%	2015	%	2014	%
Total revenues	3,079	100%	2,445	100%	7,233	100%	6,831	100%
Cost of goods sold	1,196	39%	970	40%	2,808	39%	2,852	42%
Gross margin	1,883	61%	1,475	60%	4,425	61%	3,979	58%
Research and product development	142	5%	179	7%	485	7%	593	9%
General and administration	521	17%	492	20%	1,953	27%	1,376	20%
Sales and marketing	1	0%	6	0%	7	0%	13	0%
Finance costs	51	2%	67	3%	195	3%	219	3%
Income from operations	1,168	38%	731	30%	1,785	25%	1,778	26%
Other operating loss	(162)	-5%	(41)	-2%	(351)	5%	(281)	-4%
Income before tax	1,006	33%	690	28%	1,434	20%	1,497	22%
Income taxes (recovery)	-	0%	-	0%	36	0%	-	0%
Net income	1,006	33%	690	28%	1,470	20%	1,497	22%
Basic net income per common share	0.016		0.011		0.024		0.025	
Diluted net income per common share	0.016		0.011		0.023		0.025	

The following sections discuss these results from operations.

Revenue

\$000s	Quarters		Change	Nine Months		Change
	Ended September 30,			Ended September 30,		
	2015	2014		2015	2014	
Total revenues	3,079	2,445	26%	7,233	6,831	6%

PRODUCT SALES

The third quarter of fiscal 2015 was the highest quarterly sales performance in the Company's history. Sales to the personal care industry were 26% higher than sales in the comparative quarter of the prior year and total revenues for the nine months ended September 30, 2015 now exceed the comparative nine month period of the prior year by 6%.

The overall sales growth and revenue increase over the prior year has been mainly driven by a significant increase in demand for beta glucan in Europe and Asia and has been positively impacted by a stronger U.S. dollar relative the Canadian dollar.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

\$000s	Quarters		Change	Nine Months		Change
	Ended September 30,			Ended September 30,		
	2015	2014		2015	2014	
Sales	3,079	2,445	26%	7,233	6,831	6%
Cost of goods sold	1,196	970	23%	2,808	2,852	-2%
Gross margin	1,883	1,475	28%	4,425	3,979	11%
Gross margin %	61%	60%		61%	58%	

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

During the third quarter of fiscal 2015 cost of goods sold increased by \$226,000 or 23%, from \$970,000 in 2014 to \$1,196,000. The higher cost of goods sold was a result of the increase in sales during the quarter. The overall gross margin percentage also slightly improved by 1% over the same quarter of the prior year. The gross margin percentage continues to be partially impacted from continuing operating efficiencies and partially from product sales mix in the quarters.

During the first nine months of fiscal 2015 cost of goods sold decreased by \$44,000 or 2% from \$2,852,000 in 2014 to \$2,808,000. The decrease in cost of goods sold has occurred even though sales have increased by 6% which has contributed to an overall increase of 11% in the gross margin. The gross margin percentage also increased from 58% in fiscal 2014 to 61% in fiscal 2015 primarily as a result of the Company continuing to experience operating efficiencies in the plant, from being able to source favourable feedstock, and from continuing to implement cost control measures over the raw materials used in production. The increase in the gross margin percentage from these factors has overcome the challenge to the gross margin percentage experienced from the higher 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

\$000s	Quarters		Change	Nine Months		Change
	Ended September 30,			Ended September 30,		
	2015	2014		2015	2014	
Salaries and benefits	100	99		246	346	
Regulatory and patents	5	9		107	113	
Other	17	62		111	112	
	122	170	-28%	464	571	-19%
Product development - CeaProve®	20	9	122%	21	22	-5%
Total research and product development expenditures	142	179	-21%	485	593	-18%

During the third quarter of fiscal 2015 research and development expenses before *CeaProve*® decreased by 28% or \$48,000 in comparison with the same period in fiscal 2014.

During the nine month period ended September 30, 2015 research and development expenses before *CeaProve*® decreased by 19% or \$107,000 in comparison with the same period of 2014 due primarily to decreased salary costs in fiscal 2015 as 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.

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

GENERAL AND ADMINISTRATION

\$000s	Quarters			Nine Months		
	Ended September 30, 2015	2014	Change	Ended September 30, 2015	2014	Change
Salaries and benefits	156	153		584	450	
Consulting	67	68		199	202	
Board of Directors compensation	76	32		284	128	
Insurance	21	20		81	77	
Accounting and audit fees	20	30		57	74	
Rent	22	51		68	104	
Public company costs	60	2		178	46	
Travel	19	38		84	100	
Depreciation	44	14		132	39	
Legal	2	62		177	74	
Other	34	22		109	82	
Total general and administration expenses	521	492	6%	1,953	1,376	42%

General and administration expenses for the third quarter of fiscal 2015 increased by \$29,000 or 6% primarily due to higher public company costs as a result of the services provided from an investor relations program that was entered into late in fiscal 2014 and from new website development costs, 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 the additional non-cash accounting charge recorded for the granting of stock options in the previous quarters to new directors. The increase from these costs were partially offset by lower legal costs in the current quarter compared to the prior year quarter where the AVAC trial activity commenced, and due to lower rent expenses compared to the prior quarter as the Company was previously paying more for the head office in the prior location and during the third quarter of fiscal 2014 moved the head office to the new facility.

During the nine month period ended September 30, 2015, general and administration expenses increased by \$577,000 or 42% from \$1,376,000 to \$1,953,000. The increase was due to the same factors that caused the increase in the third quarter of fiscal 2015 as well as higher salaries and benefits expense as a result of additional hires and lump sum payments to a former Officer. The increase was also due to significant legal fees incurred in the first quarter of fiscal 2015 relating to the AVAC trials. Legal fees in fiscal 2015 are \$177,000 as compared to \$74,000 in the prior period. In addition to the stock options granted to new directors in previous quarters, 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 those grants, 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 nine month period ended September 30, 2015 the accounting charge for share based payments allocated to general and administration expense is \$314,000 as compared to \$38,000 recorded in fiscal 2014 and the charge is reflected in salaries and benefits and board of directors compensation expenses.

SALES AND MARKETING

\$000s	Quarters			Nine Months		
	Ended September 30, 2015	2014	Change	Ended September 30, 2015	2014	Change
Courses, Conferences & Advertising	-	-		5	4	
Other	1	6		2	9	
Total sales and marketing	1	6	-83%	7	13	-46%

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

FINANCE COSTS

\$000s	Quarters			Nine Months		
	Ended September 30, 2015	2014	Change	Ended September 30, 2015	2014	Change
Interest on royalty financial liability	-	11		-	18	
Interest on long-term debt	14	37		40	97	
Transaction costs	6	4		18	13	
Royalties	-	-		50	48	
Accretion of CAAP loan	14	15		40	43	
Accretion of convertible debenture	17	-		47	-	
	51	67	-24%	195	219	-11%

Finance costs decreased by 24% or \$16,000 from \$67,000 incurred in the comparative quarter ended September 30, 2014 to \$51,000 incurred in the current quarter. Finance costs for the nine month period ended September 30, 2015 also decreased by 11% from the comparative period from \$219,000 to \$195,000.

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 nine 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 nine 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 nine month period of \$47,000 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

	Quarters			Nine Months		
	Ended September 30,		Change	Ended September 30,		Change
<i>\$000s</i>	2015	2014		2015	2014	
Foreign exchange loss (income)	72	(41)		97	(21)	
Loss on write off of licence	-	-		-	26	
Loss on disposal of property and equipment	-	-		-	4	
Other loss (income)	2	(19)		(13)	(22)	
Plant relocation costs	88	101		267	294	
	162	41	295%	351	281	25%

The overall increase in other operating loss of \$70,000 from \$281,000 in the first nine months of fiscal 2014 to \$351,000 is primarily a result of a \$97,000 foreign exchange loss in period versus a \$21,000 foreign exchange gain during the comparative period, which is partially offset by a one-time charge of \$26,000 in the prior period for the write-off of a licence.

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 nine months of fiscal 2015 these costs are lower than that of the comparative period primarily because the Company moved the head office and research and development departments to the new facility in the second half of fiscal 2014.

Foreign exchange loss for the nine months and quarter ended September 30, 2015 is primarily due to the foreign exchange loss on the translation of the Company's Euro denominated debt due to a strengthening of the Euro in comparison to the Canadian dollar. In the comparative periods the Euro was weaker relative to the Canadian dollar which resulted in foreign exchange gains relating primarily to the translation of the Euro denominated debt.

DEPRECIATION AND AMORTIZATION EXPENSES

In the nine month period ended September 30, 2015 the total depreciation and amortization expense of \$296,000 (2014 - \$208,000) was allocated as follows: \$134,000 to general and administration expense (2014 - \$39,000), \$45,000 to inventory (2014 - \$33,000), and \$117,000 (2014 - \$136,000) 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues	3,079	2,439	1,714	2,059	2,445	2,432	1,954	1,503
Net income (loss)	1,006	658	(194)	97	690	630	177	(117)
Basic net income (loss) per common share	0.016	0.011	(0.003)	0.002	0.011	0.010	0.003	(0.002)
Diluted net income (loss) per common share	0.016	0.010	(0.003)	0.001	0.011	0.010	0.003	(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

<i>\$000s</i>	September 30, 2015	December 31, 2014
Non-current assets	8,363	6,035
Current assets	2,561	1,648
Current liabilities	(3,040)	(2,965)
Total assets less current liabilities	7,884	4,718
Non-current liabilities	3,668	2,626
Shareholders' equity	4,216	2,092
Total capital employed	7,884	4,718

Non-current assets increased by \$2,328,000 due to an acquisition of \$2,622,000 of property and equipment (net of grant proceeds) offset by a depreciation provision of \$296,000, and increasing long-term deposits by \$2,000.

Current assets increased by \$913,000. Cash increased by \$538,000, trade and other receivables decreased by \$16,000, prepaid expenses increased by \$55,000, and inventories increased by \$336,000.

Current liabilities totaling \$3,040,000 increased by the net amount of \$75,000 mostly due to a decrease in trade payables and accrued liabilities of \$97,000, 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 \$129,000, an increase in the current portion of long-term debt of \$205,000, and an increase in the current portion of the CAAP loan of \$8,000.

Non-current liabilities totaling \$3,668,000 increased by the net amount of \$1,042,000 mostly due to the convertible debenture financing, for which the liability component was \$853,000 at September 30, 2015. Non-current liabilities also increased due to an increase in long-term debt of \$157,000 and an increase in the discounted CAAP loan in the amount of \$32,000.

Equity of \$4,216,000 at September 30, 2015 increased by \$2,124,000 from equity of \$2,092,000 at December 31, 2014 due to recognized share-based compensation of \$490,000, an increase from recognizing the equity component of convertible debentures of \$106,000, the increase from the exercise of stock options of \$57,000, and the recognition of net income of \$1,470,000 for the nine months ended September 30, 2015.

NET DEBT

<i>\$000s</i>	September 30, 2015	December 31, 2014
Cash and cash equivalents	811	273
Current financial liabilities	2,749	2,675
Non-current financial liabilities	3,668	2,626
Total financial liabilities	6,417	5,301
NET DEBT	5,606	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 \$578,000 due a long-term debt increase of \$900,000 from a new loan agreement with AFSC, a \$64,000 increase in long-term debt from a foreign exchange adjustment and the incurrence of transaction costs on the new loan agreement net of amortization, a net increase of \$40,000 from accretion of the CAAP loan, and an increase from a convertible debenture financing which resulted in a liability component of \$853,000 at September 30, 2015. These increases were offset by a reduction in long-term debt from repayments of \$601,000, a decrease in accounts payable and accrued liabilities of \$97,000, a decrease in royalty related obligations of \$43,000, and an increase of cash and cash equivalents in the amount of \$538,000.

SOURCES AND USES OF CASH

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

<i>\$000s</i>	Quarters		Nine Months	
	Ended September 30, 2015	2014	Ended September 30, 2015	2014
Sources of funds:				
Funds generated from operations (cash flow)	1,323	800	2,427	1,998
Changes in non-cash working capital items	421	(201)	(344)	(408)
Grant used for capital assets	-	-	80	211
Share issuance	27	-	57	120
Convertible debentures	-	-	960	-
Long-term debt	185	-	900	1,071
	1,956	599	4,080	2,992
Uses of funds:				
Purchase of property and equipment	(544)	(400)	(1,117)	(1,908)
Purchase of leasehold improvements	(871)	(244)	(1,461)	(1,832)
Employee future benefits obligation repayment	-	-	(127)	(150)
Interest paid	(58)	(39)	(164)	(109)
Repayment of royalty financial liability	-	(45)	(43)	(113)
Transaction costs	-	-	(29)	-
Repayment of long term debt	(222)	(188)	(601)	(442)
	(1,695)	(916)	(3,542)	(4,554)
Net change in cash flows	261	(317)	538	(1,562)

Net change in cash flow increased by \$538,000 during the nine month period ended September 30, 2015 in comparison with a decrease of \$1,562,000 for the same period in 2014 primarily due to a significant increase in cash flow from operations, more funds raised from financings, and a lower investment made on its new manufacturing facility during the first nine months of fiscal 2015, which was partially offset by a higher repayment of long-term debt.

The Company is currently in progress to complete the production area of a new 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 recently redefined to take advantage of new manufacturing process design opportunities as well as promising results obtained at lab scale with an enabling technology (PGX). As a result, the overall planned investment for the first phase of the facility has been further expanded and is currently estimated at \$13,500,000 to \$13,800,000 of which the Company has completed and recorded approximately \$9,200,000 at September 30, 2015. As a result of the increased scope of the project the Company had a working capital deficiency of \$479,583 at September 30, 2015 and will require additional funds from ongoing operations and/or other sources to complete the first phase of the manufacturing facility.

The increase in the planned investment for the first phase incorporates many factors including changes to the design of the manufacturing process, costs relating to the modification and delay of construction activities, foreign exchange effects experienced from equipment purchases during the year to date, and estimated capitalized salaries and borrowing costs. The planned investment total has always been presented exclusive of government programs committed or received representing over \$2,000,000 to date which have reduced actual cash outlays significantly.

During the nine month period ending September 30, 2015, financing for completion of the new facility has consisted of a new loan agreement and convertible debenture financing in the first quarter followed by reinvestment of operating profits during the second and third quarter. 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. The Company currently estimates it will need to generate an additional \$4,000,000 to \$4,300,000 from ongoing operations and/or other sources to complete the first phase of the new facility which will be expanded by 10,000 square feet to host the PGX technology and an ethanol recycling system.

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. Management is continuing to pursue additional funding from potential strategic alliances with 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.

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.

Total common shares issued and outstanding as at November 10, 2015 were 62,147,281 (November 12, 2014 – 61,413,948). In addition, 3,536,667 stock options as at November 10, 2015 (November 12, 2014 – 3,105,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Subsequent to the nine month period ended September 30, 2015, 190,000 stock options were exercised by a director for proceeds of \$21,500.

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 nine month period ended September 30, 2015 the Company received \$nil (2014 - \$18,333) 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 nine months ended September 30, 2015 the company received \$79,640 (2014 - \$219,141) 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 of this funding. During the nine months ended September 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 nine months ended September 30, 2015, the Company received \$8,443 (2014 - \$nil). This project has been completed.

g) During the nine months ended September 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 nine months ended September 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 (PGX) Technology. During the nine months ended September 30, 2015 the Company received \$50,000 which has been recorded as deferred revenue at September 30, 2015. The Company anticipates receiving an additional \$250,000 during the remainder of fiscal 2015.

h) During the nine months ended September 30, 2015, the Company entered into a contribution agreement with Industrial Research Assistance Program (IRAP) for non-repayable funding of up to a maximum of \$350,000 for costs incurred on the demonstration and testing of the Company's PGX Technology. Program funding will commence in the fourth quarter of fiscal 2015.

Related Party Transactions

During the nine month period ended September 30, 2015, \$nil (2014 - \$26,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at September 30, 2015, \$nil (2014 - \$9,000) of royalties were payable to employees and directors.

During the nine month period ended September 30, 2015, \$1,300 (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 nine month period ended September 30, 2015, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling \$405,000 (2014 - \$382,000) and share based payments expense for key management personnel was \$275,000 (2014 - \$32,000).

Amount payable to directors at September 30, 2015 was \$106,000 (2014 - \$29,000). Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities at September 30, 2015 was \$nil (2014 - \$21,000).

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:

<u>Year</u>	<u>Amount</u>
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

We will continue to serve our growing base business in cosmetics through the use of our value drivers avenanthramides and beta glucan and 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 as well as very encouraging results obtained at lab scale level from samples from different sources confirmed the decision to develop this promising enabling technology at the commercial scale level.

These promising results have triggered significant changes in terms of scope and magnitude for our projects and are at the basis of a decision to further expand the production area of our new facility by 10,000 square feet to host all our enabling technologies under one roof. Attaining worldwide rights for PGX in all industrial applications was a major milestone and has triggered discussions on potential strategic alliances with multinational companies. The successful completion, implementation and commissioning of the production area will then remain our top priority for the next six months. 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.

Additional Information

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

Financial Statements

**Unaudited Condensed Consolidated Financial Statements for the
Third Quarter Ended September 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.

Financial Statements

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

September 30, December 31,
2015 2014
\$ \$

	September 30, 2015	December 31, 2014
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	811,083	272,845
Trade receivables	575,702	423,567
Other receivables	42,417	210,904
Inventories (note 4)	1,014,781	679,265
Prepaid expenses and deposits	116,909	61,502
	2,560,892	1,648,083
Non-Current Assets		
Deposit	38,703	36,903
Licenses (note 5)	34,070	36,292
Property and equipment (note 6)	8,290,516	5,961,951
	8,363,289	6,035,146
TOTAL ASSETS	10,924,181	7,683,229
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	1,694,267	1,791,145
Deferred revenue	291,313	162,279
Current portion of long-term debt (note 7)	974,081	768,345
Current portion of employee future benefits obligation (note 9)	-	127,009
Current portion of CAAP loan (note 11)	80,814	72,942
Royalties interest payable	-	43,075
	3,040,475	2,964,795
Non-Current Liabilities		
Convertible debentures (note 8)	852,664	-
Long-term debt (note 7)	2,518,261	2,361,326
CAAP loan (note 11)	297,188	265,075
	3,668,113	2,626,401
Equity		
Share capital (note 10)	6,658,535	6,565,927
Equity component of convertible debentures (note 8)	106,200	-
Contributed surplus	961,917	507,505
Accumulated other comprehensive loss (note 9)	-	(16,916)
Deficit	(3,511,059)	(4,964,483)
	4,215,593	2,092,033
TOTAL LIABILITIES AND EQUITY	10,924,181	7,683,229

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Dr. Ulrich Kosciessa"
Director

Financial Statements

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

	Quarters		Nine Months	
	Ended September 30,		Ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenue (note 15)	3,079,159	2,444,956	7,233,010	6,831,039
Cost of goods sold	1,195,744	970,410	2,808,359	2,852,316
Gross margin	1,883,415	1,474,546	4,424,651	3,978,723
Research and product development	141,788	178,870	484,530	592,837
General and administration	521,498	491,580	1,952,656	1,375,647
Sales and marketing	697	6,063	7,370	12,730
Finance costs (note 14)	51,159	67,055	194,933	219,415
Income from operations	1,168,273	730,978	1,785,162	1,778,094
Other operating loss (note 13)	(161,819)	(40,981)	(351,072)	(280,702)
Income before tax	1,006,454	689,997	1,434,090	1,497,392
Income taxes				
Deferred tax recovery	-	-	36,250	-
Total comprehensive income for the period	1,006,454	689,997	1,470,340	1,497,392
Net income per common share (note 20):				
Basic	0.02	0.01	0.02	0.02
Diluted	0.02	0.01	0.02	0.02
Weighted average number of common shares outstanding (note 20):				
Basic	61,843,151	61,228,948	61,685,724	60,725,817
Diluted	64,712,580	62,996,492	65,199,635	61,762,838

See accompanying notes

Financial Statements

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	-	489,937	-	-	-	489,937
Stock options exercised	92,608	(35,525)	-	-	-	57,083
Convertible debentures	-	-	106,200	-	-	106,200
Future benefit obligation (note 9)	-	-	-	(16,916)	16,916	-
Net income for the period	-	-	-	1,470,340	-	1,470,340
Balance September 30, 2015	6,658,535	961,917	106,200	(3,511,059)	-	4,215,593
Balance December 31, 2013	6,315,858	503,829	-	(6,558,278)	(16,916)	244,493
Share-based payments	-	82,348	-	-	-	82,348
Stock options exercised	213,282	(93,532)	-	-	-	119,750
Net income for the period	-	-	-	1,497,392	-	1,497,392
Balance September 30, 2014	6,529,140	492,645	-	(5,060,886)	(16,916)	1,943,983

See accompanying notes

Financial Statements

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

Nine Months Ended September 30,
2015
\$

	2015 \$	2014 \$
OPERATING ACTIVITIES		
Net income for the period	1,470,340	1,497,392
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Finance costs	39,680	163,238
Transaction costs	18,236	12,804
Depreciation and amortization	295,934	208,366
Unrealized foreign exchange (gain) loss on long-term debt	62,556	(42,610)
Loss on disposal of property and equipment	-	3,680
Loss on write off of licence	-	25,875
Accretion	87,017	43,373
Deferred tax recovery	(36,250)	-
Employee future benefits obligation	-	3,299
Share-based payments	489,937	82,348
Net income for the period adjusted for non-cash items	2,427,450	1,997,765
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(152,135)	(230,428)
Other receivables	168,487	190,317
Inventories	(335,516)	(562,753)
Prepaid expenses and deposits	(57,207)	270,474
Deferred revenue	129,034	(361,309)
Royalty liability accrued	-	17,960
Accounts payable and accrued liabilities	(96,878)	267,016
	(344,215)	(408,723)
Net income for the period adjusted for non-cash and working capital items	2,083,235	1,589,042
Interest paid	(163,924)	(108,983)
CASH GENERATED FROM (USED IN) OPERATIONS	1,919,311	1,480,059
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,116,864)	(1,908,020)
Purchase of leasehold improvements	(1,460,824)	(1,831,857)
CASH USED BY INVESTING ACTIVITIES	(2,577,688)	(3,739,877)
FINANCING ACTIVITIES		
Long-term debt	900,000	1,071,678
Convertible debentures	960,000	-
Employee future benefits obligation repayment	(127,009)	(150,000)
Stock options exercised	57,083	119,750
Transaction costs	(28,802)	-
Repayment of long-term debt	(601,237)	(441,967)
Grant used for purchasing of leaseholds, property and equipment	79,655	211,155
Repayment of royalty financial liability	(43,075)	(113,208)
CASH GENERATED FROM FINANCING ACTIVITIES	1,196,615	697,408
Increase (decrease) in cash and cash equivalents	538,238	(1,562,410)
Cash and cash equivalents at beginning of the period	272,845	1,953,019
Cash and cash equivalents at end of the period	811,083	390,609

See accompanying notes

Cash and cash equivalents are comprised of \$804,245 (2014 - \$183,837) on deposit with financial institutions, \$6,838 (2014 - \$6,772) held in money market mutual funds, and \$nil (2014 - \$200,000) held in guaranteed investment certificates.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

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 the production area of a new 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 recently redefined to take advantage of new manufacturing process design opportunities as well as promising results obtained at lab scale with an enabling technology (PGX). As a result, the overall planned investment for the first phase of the facility has been further expanded and is currently estimated at \$13,500,000 to \$13,800,000 of which the Company has completed and recorded approximately \$9,200,000 at September 30, 2015. As a result of the increased scope of the project the Company had a working capital deficiency of \$479,583 at September 30, 2015 and will require additional funds from ongoing operations and/or other sources 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 need to be generated to complete these essential activities. The increase in the planned investment for the first phase incorporates many factors including changes to the design of the manufacturing process, costs relating to the modification and delay of construction activities, foreign exchange effects experienced from equipment purchases during the year to date, and estimated capitalized salaries and borrowing costs. The planned investment total has always been presented exclusive of government programs committed or received representing over \$2,000,000 to date which have reduced actual cash outlays significantly. During the nine month period ending September 30, 2015, financing for completion of the new facility has consisted of a new loan agreement and convertible debenture financing in the first quarter followed by reinvestment of operating profits during the second and third quarter. The Company currently estimates that it will need to generate an additional \$4,000,000 to \$4,300,000 from ongoing operations and/or other sources to complete the first phase of the new facility which will be expanded by 10,000 square feet to host the PGX technology and an ethanol recycling system.

The Company's ability to continue as a going concern is dependent on obtaining additional financial capital and maintaining profitability and positive cash flow. Management is continuing to pursue additional funding from potential strategic alliances with 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. 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 November 10, 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.

IFRS 9 "Financial instruments"

The IASB released IFRS 9 "Financial instruments", 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.

IFRS 15 “Revenue from Contracts with Customers”

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

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. 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:

	September 30, 2015	December 31, 2014
	\$	\$
Raw materials	266,483	289,784
Work in progress	408,201	43,867
Finished goods	340,097	345,614
	<u>1,014,781</u>	<u>679,265</u>

Inventories expensed to cost of goods sold during the nine month period ended September 30, 2015 are \$2,753,886 (September 30, 2014 - \$2,796,027).

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 \$2,222 has been included in general and administration expense for the nine month period ended September 30, 2015 (September 30, 2014 - \$2,222) (see note 17(c)).

Cost of licences	\$
Balance - December 31, 2014	44,439
Additions	-
Balance - September 30, 2015	44,439
Accumulated amortization	
Balance - December 31, 2014	8,147
Amortization	2,222
Balance - September 30, 2015	10,369
Net book value	
Balance - September 30, 2015	34,070
Balance - December 31, 2014	36,292

6. PROPERTY AND EQUIPMENT

	Equipment not available for use	Manufacturing Equipment	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Cost	\$	\$	\$	\$	\$	\$
December 31, 2014	1,715,775	3,685,245	305,446	400,296	2,598,604	8,705,366
additions	1,138,449	39,437	-	1,100	1,522,946	2,701,932
cost reduced by grant	(17,988)	(1,517)	-	-	(60,150)	(79,655)
disposal	-	-	-	-	-	-
September 30, 2015	2,836,236	3,723,165	305,446	401,396	4,061,400	11,327,643
Accumulated depreciation						
December 31, 2014	-	2,273,654	73,605	260,307	135,849	2,743,415
additions	-	180,857	34,665	30,753	47,437	293,712
disposal	-	-	-	-	-	-
September 30, 2015	-	2,454,511	108,270	291,060	183,286	3,037,127
Carrying value						
September 30, 2015	2,836,236	1,268,654	197,176	110,336	3,878,114	8,290,516
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
	\$	\$	\$	\$
Nine Months Ended September 30, 2015	116,828	44,885	131,999	293,712
Nine Months Ended September 30, 2014	135,992	32,920	36,107	205,019

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 \$62,122 (December 31, 2014 - \$41,169) and capitalized employee benefits of \$194,183 (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 \$62,122 (December 31, 2014 - \$38,491) and capitalized employee benefits of \$116,164 (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

	September 30 2015 \$	December 31, 2014 \$
Loan payable secured by a general security agreement, due January, 2018 (a).	446,931	582,693
Loan payable secured by certain intellectual property, due January, 2019 (b).	1,020,182	1,161,166
Loan payable secured by a general security agreement, due April, 2019 (c).	1,178,766	1,404,672
Loan payable secured by a forklift, due June, 2018 (d).	34,698	43,477
Loan payable secured by a general security agreement, due July, 2020 (e).	872,750	-
Transaction costs	(60,985)	(62,337)
	3,492,342	3,129,671
Less current portion	974,081	768,345
	2,518,261	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 September 30, 2015	39,680
Period Ended September 30, 2014	97,550

(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 September 30, 2015, the monthly payment is \$26,765 (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 nine month period ended September 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. On August 1, 2015, monthly blended principal and interest payments in the amount of \$16,483 commenced. 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 nine months ended September 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	5,173	-
Accretion of discount on the convertible debentures	47,032	-
Ending balance at September 30, 2015	852,664	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 nine months ended September 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.

	Nine Months Ended September 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
	-	-

	Nine Months Ended September 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

	Nine Months Ended September 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	533,333	92,608	1,145,000	250,069
Balance at end of the period	61,957,281	6,658,535	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)	September 30, 2015 Number of Options	December 31, 2014 Number of Options	
0.25	0.27	2025	9.8	10,000	-	
0.25	0.27	2025	9.8	10,000	-	
0.34	0.36	2025	9.6	150,000	-	
0.47	0.50	2025	9.3	100,000	-	
0.60	0.64	2025	9.3	900,000	-	
0.37	0.27	2024	9.1	150,000	150,000	
0.13	0.14	2024	8.7	250,000	250,000	
0.08	0.10	2024	8.3	810,000	810,000	
0.05	0.10	2023	7.3	846,667	1,065,000	
0.09	0.10	2022	6.8	300,000	300,000	
0.11	0.15	2016	0.7	200,000	275,000	
				7.9	3,726,667	2,850,000

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 nine month period ended September 30, 2015 the Company granted 1,210,000 (September 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 nine month period ended September 30, 2015 was \$0.55 (2014 - \$0.09) per option.

11. CAAP LOAN

The balance of repayable contribution is derived as follows:

	Nine Months Ended, September 30, 2015 \$	Year Ended December 31, 2014 \$
Opening balance	338,017	363,471
Repayment	-	(83,884)
Accretion of CAAP loan	39,985	58,430
	<u>378,002</u>	<u>338,017</u>
Less current portion	80,814	72,942
	<u>297,188</u>	<u>265,075</u>

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:

	Nine Months Ended September 30,	
	2015	2014
	\$	\$
Royalties earned by employees and directors	-	25,666
Amounts payable to employees and directors included in royalties payable	-	8,719
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	1,310	-
Key management salaries, short-term benefits, consulting fees and director fees	404,865	382,350
Key management personnel share based payments	274,713	32,274
Consulting fees payable to a company controlled by an officer included in accounts payable and accrued liabilities	-	21,000
Amount payable to directors	105,646	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		Nine Months	
	Ended September 30,		Ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Foreign exchange loss (income)	71,140	(41,116)	96,773	(21,314)
Loss on write off of licence	-	-	-	25,875
Loss on disposal of property and equipment	-	-	-	3,680
Other loss (income)	2,479	(18,509)	(12,938)	(21,342)
Plant relocation costs	88,200	100,606	267,237	293,803
	161,819	40,981	351,072	280,702

14. FINANCE COSTS

	Quarters		Nine Months	
	Ended September 30,		Ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Interest on long-term debt	13,865	36,778	39,680	97,550
Transaction costs	6,393	4,043	18,236	12,804
Royalties	-	-	50,000	47,500
Accretion of CAAP loan	13,828	14,750	39,985	43,373
Accretion of convertible debentures	17,073	-	47,032	-
Interest on royalty financial liability	-	11,484	-	18,188
	51,159	67,055	194,933	219,415

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		Nine Months	
	Ended September 30,		Ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
United States	2,126,291	2,196,264	4,900,585	5,829,952
Germany	917,576	231,455	2,163,248	884,359
Other	33,062	16,663	165,640	115,491
Canada	2,230	574	3,537	1,237
	3,079,159	2,444,956	7,233,010	6,831,039

16. EMPLOYEE BENEFITS

	Quarters		Nine Months	
	Ended September 30,		Ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Employee benefits	717,741	578,966	2,331,703	1,764,570

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

17. CONTINGENCIES AND COMMITMENTS

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

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

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

<u>Year</u>	<u>Amount</u>
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:

	September 30, 2015		December 31, 2014	
	Book value	Fair value	Book value	Fair value
Loans and receivables:				
Cash and cash equivalents	\$ 811,083	\$ 811,083	\$ 272,845	\$ 272,845
Trade and other receivables	618,119	618,119	634,471	634,471
Other financial liabilities:				
Accounts payable and accrued liabilities	\$ 1,694,267	\$ 1,694,267	\$ 1,791,145	\$ 1,791,145
Long-term debt	3,492,342	3,492,342	3,129,671	3,129,671
Convertible debentures	852,664	852,664	-	-
CAAP loan	378,002	378,002	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 95% of trade receivables are due from three customers at September 30, 2015 (December 31, 2014 – 95% from two customers) and all trade receivables at September 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 research and development 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 \$811,083 at September 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	1,694,267	-	-	-	1,694,267
Long-term debt	1,085,290	2,033,693	675,159	-	3,794,142
Convertible debentures	76,906	998,610	-	-	1,075,516
CAAP loan	83,883	167,766	167,766	167,766	587,181
Total	2,940,346	3,200,069	842,925	167,766	7,151,106

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	429,821	4,298	(4,298)
Financial Liabilities			
Accounts payable and accrued liabilities	201,845	(2,018)	2,018
Total increase (decrease)		2,280	(2,280)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial Liabilities			
Long-term debt	682,350	(6,824)	6,824
Total (decrease) increase		(6,824)	6,824

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 September 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 September 30, 2015.

20. INCOME PER COMMON SHARE

	Quarters		Nine Months	
	Ended September 30, 2015	2014	Ended September 30, 2015	2014
Net income for the period for basic and diluted earnings per share calculation	\$1,006,454	\$689,997	\$1,470,340	\$1,497,392
Weighted average number of common shares outstanding	61,843,151	61,228,948	61,685,724	60,725,817
Effect of dilutive stock options	1,369,429	1,767,544	2,013,911	1,037,021
Effect of dilutive convertible debentures	1,500,000	-	1,500,000	-
Diluted weighted average number of common shares	64,712,580	62,996,492	65,199,635	61,762,838
Income per share - basic	\$0.02	\$0.01	\$0.02	\$0.02
Income per share - diluted	\$0.02	\$0.01	\$0.02	\$0.02

For the nine month period ended September 30, 2015, 1,113,334 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 September 30, 2015, 1,320,000 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 nine month period and quarter ended September 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.