



Q3 2014

Unaudited Condensed Consolidated Financial Statements
for the Third Quarter ended September 30, 2014



Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the periods ended September 30, 2014 and 2013, the financial position as at September 30, 2014, and the outlook of Ceapro Inc. (Ceapro) based on information available as at November 12, 2014. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at September 30, 2014, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2013 and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2013 which are prepared in accordance with International Financial Reporting Standards (IFRS). All comparative percentages are between the periods ended September 30, 2014 and 2013 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A offers our assessment of Ceapro's future plans and operations as at November 12, 2014, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

Vision, Core Business, and Strategy

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

Our products include:

- A commercial line of natural active ingredients, including *beta glucan*, *avenanthramides (colloidal oat extract)*, *oat powder*, *oat oil*, *oat peptides*, and *lupin peptides* which are marketed to the personal care, cosmetic, medical, and animal health industries through our distribution partners and direct sales; and
- Veterinary therapeutic products, including an *oat shampoo*, an *ear cleanser*, and a *dermal complex/conditioner*, which are manufactured and marketed to veterinarians in Japan and Asia, through agreements with Daisen Sangyo Co. Ltd.

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

- A *drug delivery* platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging;
- An extension to *the active ingredients* product range offering, through new formulations;
- A variety of novel manufacturing technologies including Pressurized Gas Expansion drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds; and

- The development of a new oat variety and certain technologies to increase the content of avenanthramides to high levels to enable new innovative products to be introduced to new markets including medicinal foods, nutraceuticals and botanical drugs.
- *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 technology and renewable resources. We act as innovator, advanced processor, and formulator in the development of new products. We deliver our technology to the market through distribution partnerships and direct sales efforts. Our strategic focus is in:

- Identifying unique plant sources and technologies capable of generating novel active natural products;
- Increasing sales and expanding markets for our current active ingredients;
- Developing and marketing additional high-value proprietary therapeutic natural products;
- Developing and improving manufacturing technologies to ensure efficiencies; and
- Advancing new partnerships and strategic alliances to develop new commercial active ingredients, manufacturing technologies, and target markets.

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

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

- Adding value to all aspects of our business;
- Enhancing the health of humans and animals;
- Discovering, and commercializing new, therapeutic natural ingredients and bioprocessing technologies;
- Producing the highest quality work possible in products, science, and business; and
- Developing personnel through guidance, opportunities, and encouragement.

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

Risks and Uncertainties

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

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

a) Credit risk:

Trade and other receivables

The Company makes sales to customers that are well-established within their respective industries. Based on previous experience the counterparties had zero default rates and management views this risk as minimal. Approximately 89% of trade receivables are due from three customers at September 30, 2014 and all trade receivables are current. These main customers present good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$390,609 at September 30, 2014 and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk:

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

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

	0 - 1 year \$	1 - 3 years \$	4 - 7 years \$	8-12 years	Total \$
Accounts payable and accrued liabilities	1,315,679	-	-	-	1,315,679
Loan payable secured by certain intellectual property due January, 2019.	304,044	608,088	405,392	-	1,317,524
Loan payable secured by a general security agreement due April, 2019.	352,227	704,453	557,693	-	1,614,373
Long-term debt, including interest	200,082	400,164	66,694	-	666,940
Loan payable secured by a forklift due June, 2018.	14,004	28,008	10,503	-	52,515
Royalties interest payable	43,075	-	-	-	43,075
Repayable CAAP funding	83,883	167,766	335,536	83,883	671,068
Total	2,312,994	1,908,479	1,375,818	83,883	5,681,174

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	429,620	4,296	(4,296)
Financial Liabilities			
Accounts payable and accrued liabilities and Deferred revenue	155,535	(1,555)	1,555
Total increase (decrease)		2,741	(2,741)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial Liabilities			
Long-term debt	874,746	(8,747)	8,747
Total increase (decrease)		(8,747)	8,747

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

2. Interest rate risk.

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

3. Share price risk.

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

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

4. People and process risk.

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

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

i) Loss of key personnel:

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

ii) Interruption of raw material supply:

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

iii) Environmental issues:

Violations of safety, health, and environmental regulations could limit operations and expose the Company to liability, cost, and reputational impact. In addition to maintaining compliance with national and provincial standards, Ceapro maintains internal safety and health programs.

iv) Regulatory compliance:

As a natural extract producer, Ceapro is subject to various regulations and violation of these could limit markets into which we can sell. Ceapro has introduced a range of procedures which will ensure that Ceapro is well prepared for new regulations and obligations that may be required. Significant investments are being made to ensure compliance with the continually evolving regulatory environment.

Future accounting policies not yet adopted

Financial instruments

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

In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact that this new standard is likely to have on its consolidated financial statements.

Results of Operations

Periods Ended September 30, 2014 and 2013

CONSOLIDATED INCOME STATEMENT

<i>\$000s except per share data</i>	Quarters				Nine Months			
	Ended September 30,		2013		Ended September 30,		2013	
	2014	%	2013	%	2014	%	2013	%
Total revenues	2,445	100%	1,997	100%	6,831	100%	5,022	100%
Cost of goods sold	970	40%	1,155	58%	2,852	42%	2,551	51%
Gross margin	1,475	60%	842	42%	3,979	58%	2,471	49%
Research and product development	179	7%	203	10%	593	9%	568	11%
General and administration	492	20%	393	20%	1,376	20%	1,266	25%
Sales and marketing	6	0%	5	0%	13	0%	74	1%
Finance costs	67	3%	43	2%	219	3%	117	2%
Income from operations	731	30%	198	10%	1,778	26%	446	9%
Other operating loss	(41)	-2%	(75)	-4%	(281)	4%	(166)	-3%
Net income	690	28%	123	6%	1,497	22%	280	6%
Basic net income per common share	0.011		0.002		0.025		0.005	
Diluted net income per common share	0.011		0.002		0.025		0.005	

During the third quarter of 2014 the Company's revenue significantly increased by 22% or \$448,000 to \$2,445,000 from \$1,997,000 in 2013 and cost of goods sold decreased by 16% or \$185,000 to \$970,000 from \$1,155,000 in comparison with the same period of 2013. These changes resulted in an increase in the amount of gross margin by 75% or \$633,000 to \$1,475,000 in 2014 from \$842,000 in 2013.

Income from operations has increased by \$533,000 to \$731,000 from \$198,000.

Net income has increased by \$567,000 to \$690,000 from \$123,000.

During the first nine months of 2014 the Company's revenue increased by 36% or \$1,809,000 to \$6,831,000 from \$5,022,000 in 2013 and cost of goods sold increased by 12% or \$301,000 to \$2,852,000 from \$2,551,000 in comparison with the same period of 2013. These changes resulted in an increase in the amount of gross margin by 61% or \$1,508,000 to \$3,979,000 in 2014 from \$2,471,000 in 2013.

Income from operations has increased by \$1,332,000 to \$1,778,000 in 2014 from \$446,000 during the first nine months of 2013.

Net income in the first nine months of 2014 has increased of \$1,217,000 to \$1,497,000 from \$280,000 in the same period of 2013 mostly due to an increase in gross margin offset by higher other expenses.

Revenue

\$000s	Quarters			Nine Months		
	Ended September 30, 2014	2013	Change	Ended September 30, 2014	2013	Change
Total revenues	2,445	1,997	22%	6,831	5,022	36%

PRODUCT SALES

Sales in the third quarter of 2014 increased by \$448,000 or 22% primarily as a result of higher sales volumes of avenanthramides, partially offset by decreasing sales volumes of oat oil.

Sales in the first nine months of 2014 increased by \$1,809,000 or 36% primarily as a result of higher sales volumes of avenanthramides and oat oil.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

\$000s	Quarters			Nine Months		
	Ended September 30, 2014	2013	Change	Ended September 30, 2014	2013	Change
Sales	2,445	1,997	22%	6,831	5,022	36%
Cost of goods sold	970	1,155	-16%	2,852	2,551	12%
Gross margin	1,475	842	75%	3,979	2,471	61%
Gross margin %	60%	42%		58%	49%	

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 2014 cost of goods sold decreased by \$185,000 or 16%, from \$1,155,000 in 2013 to \$970,000 in 2014. The gross margin in the third quarter of 2014 is higher by 75% due to higher sales and lower cost of goods. The gross margin percentage increased by 18% from 42% in the third quarter of 2013 to 60% in the same period of 2014 due to favorable natural feedstock variations and a product sales mix weighted toward higher margin products.

During the first nine months of 2014 the cost of goods sold rose by \$301,000 or 12%, from \$2,551,000 in 2013 to \$2,852,000 in 2014. The gross margin in the first nine months of 2014 was higher by 61% due to higher sales. The gross margin percentage increased by 9% from 49% in the first nine months of 2013 to 58% in the same period of 2014, mainly due to high quality feedstock that was available.

RESEARCH AND PRODUCT DEVELOPMENT

\$000s	Quarters			Nine Months		
	Ended September 30, 2014	2013	Change	Ended September 30, 2014	2013	Change
Salaries and benefits	99	171		346	498	
Regulatory and patents	9	61		113	224	
Other	62	(37)		112	(169)	
	170	195	-13%	571	553	3%
Product development - Ceaprove®	9	8	13%	22	15	47%
Total research and product development expenditures	179	203	-12%	593	568	4%

During the third quarter of 2014 research and development expenses before *CeaProve*® development decreased by 13% or \$25,000 in comparison with the same period of 2013 due to decreased salary costs of \$72,000 and regulatory and patents expenditure of \$52,000. The higher patent cost in 2013 was due to the issue of key beta glucan patents in several European countries.

CeaProve® costs have increased from \$8,000 in 2013 to \$9,000 in 2014 due to patent costs.

During the first nine months of 2014 research and development expenses before *CeaProve*® development have increased by 3% due to lower amounts of grant revenue recognition of discounted CAAP funding and grant contributions from Alberta Innovates Technology Futures and a federal government program in 2014 in comparison with the same period of 2013 offset by decreased expenses for salary costs of \$152,000 and regulatory and patents expenditures of \$111,000.

CeaProve® costs have increased by 47% from \$15,000 to \$22,000.

GENERAL AND ADMINISTRATION

\$000s	Quarters			Nine Months		
	Ended September 30, 2014	2013	Change	Ended September 30, 2014	2013	Change
Salaries and benefits	153	146		450	467	
Consulting	68	68		202	203	
Board of Directors compensation	32	32		128	108	
Insurance	20	20		77	87	
Accounting and Audit fees	30	18		74	53	
Rent	51	25		104	66	
Public Company Costs	2	16		46	47	
Travel	38	27		100	92	
Depreciation	14	12		39	31	
Legal	62	2		74	36	
Other	22	27		82	76	
Total general and administration expenses	492	393	25%	1,376	1,266	9%

General and administration expense for the third quarter of 2014 increased by \$99,000 or 25% from \$393,000 to \$492,000 primarily due to higher rent, accounting and audit fees, travel and legal expenses, partially offset by lower public company costs.

During the first nine months of 2014 general and administration expenses increased by \$110,000 or 9% mostly due to the same reasons as for the third quarter.

SALES AND MARKETING

\$000s	Quarters			Nine Months		
	Ended September 30, 2014	2013	Change	Ended September 30, 2014	2013	Change
Travel	-	4		-	24	
Courses, Conferences & Advertising	-	5		4	46	
Other	6	(4)		9	4	
Total sales and marketing	6	5	20%	13	74	-82%

Sales and marketing expenses in the third quarter of 2014 increased by \$1,000 or 20% in comparison with the same period of 2013.

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

The first nine months of 2014 showed a decrease in expenditures of \$61,000 or 82% versus 2013 as a result of the decision to place greater marketing emphasis on distribution partners which requires lower levels of expenditure.

FINANCE COSTS

\$000s	Quarters			Nine Months		
	Ended September 30, 2014	2013	Change	Ended September 30, 2014	2013	Change
Interest on royalty financial liability	11	6		18	20	
Interest on long-term debt	37	8		97	27	
Transaction costs	4	18		13	17	
Royalties to University of Guelph & AAFC	-	-		48	23	
Accretion of CAAP loan	15	11		43	30	
	67	43	56%	219	117	87%

As at September 30, 2014, royalty investors received royalties equal to 2.285% (2013 . 2.285%) of revenues from product sales and royalty, licence, and product development fees of active ingredients and veterinary therapeutic products and *CeaProve*[®], to a maximum of two times the amount invested. AVAC Ltd. receives royalties of up to 2.5% to 5% of revenues from eligible product sales, to a maximum of one and a half to two times the amount invested. Royalty expenses will vary directly with fluctuations in eligible product sales, royalty, licence and product development fees, product sales mix, and any new royalty interest offerings that may be completed.

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

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

of the CAAP loan was \$43,000 in the nine month period ended September 30, 2014 (September 30, 2013 - \$30,000).

OTHER OPERATING LOSS (INCOME)

\$000s	Quarters			Nine Months		
	Ended September 30, 2014	2013	Change	Ended September 30, 2014	2013	Change
Foreign exchange loss (income)	(41)	(4)		(21)	10	
Loss on write off of licence	-	-		26	-	
Loss on disposal of property and equipment	-	-		4	-	
Other (income)	(19)	(1)		(22)	(5)	
Plant relocation costs	101	80		294	161	
	41	75	-45%	281	166	69%

Foreign exchange income in the first nine months ended September 30, 2014 was \$21,000 in comparison with a loss of \$10,000 in 2013 due to the fluctuations of the US dollar and Euro versus the Canadian dollar during the in comparison with the same period of 2013. Gains, particularly against Euro denominated long term debt were recognized in the three months ended September 30, 2014. A one-time charge of \$26,000 to write off a licence was recognized. Plant relocations cost represents cost for the new manufacturing facility that is not yet operational.

DEPRECIATION AND AMORTIZATION EXPENSES

In the nine month period ended September 30, 2014 the total depreciation and amortization of \$208,000 (2013 - \$226,000) was allocated as follows: \$39,000 to general and administration expense (2013 - \$31,000), \$33,000 to inventory (2013 - \$18,000), and \$136,000 (2013 - \$177,000) to cost of goods sold.

QUARTERLY INFORMATION

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

\$000s except per share data	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues	2,445	2,432	1,954	1,503	1,997	1,012	2,012	1,202
Net income (loss)	690	630	177	(117)	123	(252)	408	(237)
Basic net income (loss) per common share	0.011	0.010	0.003	(0.002)	0.002	(0.004)	0.007	(0.004)
Diluted net income (loss) per common share	0.011	0.010	0.003	(0.002)	0.002	(0.004)	0.007	(0.004)

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

Liquidity and Capital Resources

CAPITAL EMPLOYED

<i>\$000s</i>	September 30, 2014	December 31, 2013
Non-current assets	5,256	1,948
Current assets	1,902	3,149
Current liabilities	(2,318)	(2,213)
Total assets less current liabilities	4,840	2,884
Non-current liabilities	2,896	2,640
Shareholders' equity	1,944	244
Total capital employed	4,840	2,884

Non-current assets increased by \$3,308,000 due to an acquisition of \$3,538,000 of property and equipment (net grant proceeds) offset by a depreciation provision of \$208,000, fixed asset disposals of \$4,000, licence write off of \$26,000 and an increase in deposits of \$8,000.

Current assets decreased by \$1,247,000. Cash decreased by \$1,562,000, accounts receivables and prepaid expenses decreased by \$248,000. Inventories increased by \$563,000.

Current liabilities totaling \$2,318,000 increased by the net amount of \$105,000 mostly due to an increase in the current portion of long-term debt of \$252,000, an increase in trade payables and accrued liabilities of \$321,000, an increase in the current portion of CAAP loan of \$8,000 offset by a decreased employee future benefit obligation of \$20,000, a decrease in royalty related obligations of \$95,000 and a decrease in deferred revenue of \$361,000.

Non-current liabilities totaling \$2,896,000 increased by the net amount of \$256,000 due to long-term debt increases of \$348,000 and a discounted CAAP loan increase in the amount of \$35,000 offset by accrued employee future benefit obligation reclassified to current liabilities in the amount of \$127,000.

Equity of \$1,944,000 at September 30 2014 increased by \$1,700,000 from equity of \$244,000 at December 31, 2013 due to net income for the period ended September 30, 2014 of \$1,498,000 and recognized share-based compensation of \$82,000 and proceeds from share options exercised of \$120,000.

NET DEBT

<i>\$000s</i>	September 30, 2014	December 31, 2013
Cash and cash equivalents	391	1,953
Current financial liabilities	2,191	1,705
Non-current financial liabilities	2,896	2,513
Total financial liabilities	5,087	4,218
NET DEBT	4,696	2,265

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

The Company's net debt increased by \$2,431,000 due to a decrease of cash and cash equivalent in the amount of \$1,562,000, accounts payable and accrued liabilities increase of \$321,000, long-term debt increase in the amount of \$600,000, CAAP loan discounted amount recognized of \$43,000 offset by decreased royalty related obligations of \$95,000.

SOURCES AND USES OF CASH

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

\$000s	Quarters		Nine Months	
	Ended September 30, 2014	2013	Ended September 30, 2014	2013
Sources of funds:				
Funds generated from operations (cash flow)	842	280	2,040	656
Changes in non-cash working capital items	(201)	(68)	(408)	(282)
Restricted cash received or utilized	-	440	-	709
Grant used for capital assets	-	440	211	709
Repayable CAAP Funding	-	(21)	-	130
Share issuance	-	-	120	-
Long-term debt, net of repayments	-	-	1,071	-
	641	1,071	3,034	1,922
Uses of funds:				
Purchase of property and equipment	(400)	(59)	(1,908)	(121)
Purchase of leasehold improvements	(244)	(360)	(1,832)	(629)
Purchase of prepaid deposits from grant	-	(80)	-	(80)
Employee future benefits obligation repayment	-	-	(150)	-
Deferred revenue reduction	-	(440)	-	(709)
Interest paid	(39)	(20)	(109)	(68)
Repayment of royalty financial liability	(45)	(26)	(113)	(60)
Repayment of long term debt	(230)	(42)	(484)	(126)
	(958)	(1,027)	(4,596)	(1,793)
Net change in cash flows	(317)	44	(1,562)	129

Net change in cash flow decreased by \$1,691,000 during the nine month period ended September 30, 2014 in comparison with the same period of 2013.

The Company estimates that the cash flows generated by its operating activities as well as cash available through other sources will be sufficient to finance its operating expenses and capital investment but believes there may be other cost uncertainties pertaining to commissioning and start up of a new plant.

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

Total common shares issued and outstanding as at November 12, 2014 were 61,413,948 (November 8, 2013 - 60,278,948). In addition, 3,105,000 stock options as at November 12, 2014 (November 8, 2013 - 3,450,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Ceapro's working capital deficiency was \$416,000 at September 30, 2014, which was decreased by \$1,352,000 from working capital of \$936,000 at December 31, 2013.

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

The ability to generate new cash will depend on external factors, many beyond the Company's control, as outlined in the Risks and Uncertainties section. Should sufficient capital not be raised, Ceapro may have to delay, reduce the scope of, eliminate, or divest one or more of its discovery, research, or development technology or programs, any of which could impair the value of the business.

GOVERNMENT FUNDING

a) During the year ended December 31, 2010, the Company was approved for non-repayable funding in the amount of \$124,000 from Alberta Innovates Technology Futures (AITF). During the period ended September 30, 2014, the Company received \$nil (2013 - \$9,167) which was recorded as a reduction of research and product development expenses. This agreement has now been completed.

b) During the year ended December 31, 2012 the Company was approved for a second agreement for non-repayable funding in the amount of \$124,000 from AITF. During the period ended September 30, 2014, the Company received \$18,333 (2013 - \$52,833) which was recorded as a reduction of research and project development expenses. This agreement has now been completed.

c) The Company was approved for non-repayable funding to a maximum of \$21,250 of eligible expenditures under the Novel Crops Initiative program from the Prince Edward Island Department of Agriculture. The Company recorded the amount of \$nil as a reduction of research and product development expenditures under this program in the period ended September 30, 2014 (2013 - \$5,000). This agreement has now been completed.

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

e) During the year ended December 31, 2011, the Company entered into a Contribution Agreement with AI-BIO Solutions for a non-repayable grant contribution totaling up to \$1,600,000 towards the construction of a new bio-processing facility and subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received \$750,000 in 2011 classified as restricted cash and cash equivalents and deferred revenue, and received of \$690,000 in 2013. The amount of \$nil (2013 - \$310,438) was recorded as a reduction of capitalized expenditures in the period ended September 30, 2014. An amount of \$160,000 is expected to be received in 2015.

f) During the year ended December 31, 2012 the Company entered into a contribution agreement with an agency of the federal government to provide funding of up to \$253,000 for certain research activities. This contribution agreement was amended to increase the potential non-repayable contribution amount to \$345,000 from \$253,000 in 2013. During the period ended September 30, 2014 the Company received or recorded as receivable the amount of \$nil (September 30, 2013 - \$269,440). The agreement is now completed.

g) During the year ended December 31, 2013 the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding in an amount up to \$673,000. During the nine months ended September 30, 2014 the Company received or recorded as receivable the amount of \$219,141, of which \$211,155 was recorded as a reduction of capital expenditures and equipment deposits. The Company anticipates receiving up to an additional \$261,522 in 2015.

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

Related Party Transactions

During the period ended September 30, 2014, \$26,000 (2013 - \$19,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at September 30, 2014, \$9,000 (2013 - \$6,000) of royalties were payable to employees and directors.

During the period ended September 30, 2014, the Company paid key management salaries, short-term benefits, consulting fees and director fees totaling \$382,000 (2013 - \$511,000) and key management personnel received share-based payments of 32,000 (2013 - \$36,000).

Amount payable to directors at September 30, 2014 was \$29,000 (2013 - \$29,000). Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities at September 30, 2014 was \$21,000 (2013 - \$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. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

b) During the year ended December 31, 2012, the Company and its wholly owned subsidiary, Ceapro Technology Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$1,470,000 pursuant to two product development agreements. The Company and Ceapro Technology Inc. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

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

In accordance with the new agreement, there are future minimum royalty prepayments of \$10,000 per annum starting in 2012 for royalty payments which will be calculated as 5% of net sales from products derived from the mint plants. The minimum royalty payments are creditable against royalties in years where royalties are due. The agreement is an executory contract and therefore all royalty payments under the contract will be recognized as they become due.

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

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

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

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

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

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

Outlook

Ceapro has just registered record sales and net profits for both the third quarter of 2014 and the nine month period ended September 30, 2014. We are very pleased with third quarter sales of \$2,445,000 and net profit of \$690,000 and sales of \$6,831,000 and net profit of \$1,497,000 for the nine months ended September 30, 2014. The record results were achieved during a period requiring high levels of non-recurrent expenses for the construction of our new state-of-the-art manufacturing facility and the acquisition and installation of customized equipment. We expect to maintain our positive trend until the end of 2014 and prepare for even greater success in 2015.

In addition, we expect to pursue our research and development program with dry formulations of our value drivers, avenanthramides and beta glucan. Emphasis will be put on beta glucan over the next six months to conduct impregnation studies to test beta glucan as a potential delivery system to serve the cosmetics and functional food markets. Early stage and clinical studies to develop beta glucan and avenanthramides as nutraceuticals will be conducted over a 24-month period. Transition to these sectors will require major investments and represent a significant opportunity for our company.

We remain focused on having Ceapro achieve its true potential.

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, 2014

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

Financial Statements

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

September 30, December 31,
2014 2013
\$ \$

	September 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	390,609	1,953,019
Trade receivables	481,287	250,859
Other receivables	89,096	279,413
Inventories (note 4)	886,335	323,582
Prepaid expenses and deposits	54,519	342,289
	1,901,846	3,149,162
Non-Current Assets		
Deposits	36,903	28,562
Licenses (note 5)	37,032	66,254
Property and equipment (note 6)	5,182,002	1,853,024
	5,255,937	1,947,840
TOTAL ASSETS	7,157,783	5,097,002
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	1,315,679	994,408
Deferred revenue	-	361,309
Current portion of long-term debt (note 7)	751,895	499,718
Current portion of employee future benefits obligation (note 8)	126,281	145,973
Current portion of CAAP loan (note 10)	80,814	72,942
Royalties interest payable	43,075	31,631
Current portion of royalty financial liability	-	106,692
	2,317,744	2,212,673
Non-Current Liabilities		
Employee future benefits obligation (note 8)	-	127,009
Long-term debt (note 7)	2,570,026	2,222,298
CAAP loan (note 10)	326,030	290,529
	2,896,056	2,639,836
Equity		
Share capital (note 9)	6,529,140	6,315,858
Contributed surplus	492,645	503,829
Accumulated other comprehensive loss	(16,916)	(16,916)
Deficit	(5,060,886)	(6,558,278)
	1,943,983	244,493
TOTAL LIABILITIES AND EQUITY	7,157,783	5,097,002

See accompanying notes

Financial Statements

CEAPRO INC.

Consolidated Statements of Net Income and Comprehensive Income

Unaudited

	Quarters		Nine Months	
	Ended September 30, 2014	2013	Ended September 30, 2014	2013
	\$	\$	\$	\$
Revenue (note 14)	2,444,956	1,997,398	6,831,039	5,021,999
Cost of goods sold	970,410	1,155,535	2,852,316	2,551,124
Gross margin	1,474,546	841,863	3,978,723	2,470,875
Research and product development	178,870	203,191	592,837	567,640
General and administration	491,580	393,163	1,375,647	1,266,149
Sales and marketing	6,063	4,850	12,730	73,773
Finance costs (note 13)	67,055	42,361	219,415	117,004
Income from operations	730,978	198,298	1,778,094	446,309
Other operating loss (note 12)	(40,981)	(75,115)	(280,702)	(166,670)
Net income for the period	689,997	123,183	1,497,392	279,639
Other comprehensive loss				
Actuarial loss on employee future benefit obligation (note 8)	-	-	-	(16,916)
Total comprehensive income for the period	689,997	123,183	1,497,392	262,723
Net income per common share (note 19):				
Basic	0.01	0.00	0.02	0.00
Diluted	0.01	0.00	0.02	0.00
Weighted average number of common shares outstanding	61,228,948	60,278,948	60,725,817	60,278,948
Weighted average number of the dilutive shares outstanding	62,996,492	60,278,948	61,762,838	60,278,948

See accompanying notes

Financial Statements

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

	Share Capital \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive loss \$	Equity \$
Balance December 31, 2013	6,315,858	503,829	(6,558,278)	(16,916)	244,493
Share-based payments	-	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
Balance December 31, 2012	6,315,858	431,792	(6,734,086)	-	13,564
Share-based payments	-	62,062	-	-	62,062
Net income for the period	-	-	279,639	-	279,639
Other comprehensive loss (actuarial loss) (note 8)	-	-	-	(16,916)	(16,916)
Balance September 30, 2013	6,315,858	493,854	(6,454,447)	(16,916)	338,349

See accompanying notes

Financial Statements

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

Nine Months Ended September 30,
2014
\$

	2014 \$	2013 \$
OPERATING ACTIVITIES		
Net income for the period	1,497,392	279,639
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Finance costs	163,238	86,576
Transaction costs	12,804	-
Depreciation and amortization	208,366	226,003
Loss on disposal of property and equipment	3,680	-
Loss on write off of licence	25,875	-
Accretion of CAAP loan (note 10)	43,373	30,428
Grant revenue recognized	-	(66,313)
Employee future benefits obligation	3,299	37,283
Share-based payments	82,348	62,062
Net income for the period adjusted for non-cash items	2,040,375	655,678
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	(230,428)	(37,524)
Other receivables	190,317	(4,251)
Inventories	(562,753)	334,429
Prepaid expenses and deposits	270,474	(333,437)
Deferred revenue	(361,309)	(703,371)
Royalty liability accrued	17,960	4,299
Accounts payable and accrued liabilities	267,016	457,973
	(408,723)	(281,882)
Net income for the period adjusted for non-cash and working capital items	1,631,652	373,796
Interest paid	(108,983)	(68,136)
CASH GENERATED FROM OPERATIONS	1,522,669	305,660
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,908,020)	(120,581)
Purchase of leasehold improvements	(1,831,857)	(629,113)
Purchase of prepaid deposits from grant	-	(79,664)
	(3,739,877)	(829,358)
FINANCING ACTIVITIES		
Long-term debt	1,071,678	-
Employee future benefits obligation repayment	(150,000)	-
Stock options exercised	119,750	-
Repayable CAAP Funding	-	130,388
Repayment of Long-term debt	(484,577)	(125,656)
Grant used for purchasing of leaseholds, property and equipment and prepaid deposits	211,155	708,777
Deferred revenue	-	(708,777)
Restricted cash and cash equivalents	-	708,777
Repayment of royalty financial liability	(113,208)	(60,398)
	654,798	653,111
(Decrease) increase in cash and cash equivalents	(1,562,410)	129,413
Cash and cash equivalents at beginning of the period	1,953,019	273,106
Cash and cash equivalents at end of the period	390,609	402,519

See accompanying notes

Cash and cash equivalents are comprised of \$183,837 (2013 - \$396,020) on deposit with financial institutions, \$6,772 (2013 - \$6,499) held in money market mutual funds, and \$200,000 (2013 - \$nil) held in guaranteed investment certificates.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013.**

1. NATURE OF BUSINESS OPERATIONS AND GOING CONCERN

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

The Company's head office address is 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. While the Company has recorded a net income of \$1,497,392 during the nine months ended September 30, 2014, it has not yet achieved consistent profitability since inception.

The Company is currently in progress to complete a new manufacturing facility. This involves substantial capital expenditures for engineering and design, permitting, construction of leaseholds, equipment, as well as other related costs required to meet the strict requirements of major customers. The total investment currently planned for these items is currently estimated at \$7,100,000 of which the Company has completed and recorded approximately \$5,700,000.

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

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

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

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

2. ACCOUNTING PRINCIPLES FOR INTERIM FINANCIAL STATEMENTS

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of consolidated financial statements, including IFRS 34, *Interim Financial Reporting*. The accounting principles and methods of computation adopted in these financial statements are the same as those of the annual financial statements for the year ended December 31, 2013.

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements. The financial statements and notes presented should be read in conjunction with the annual financial statements for the year ended December 31, 2013.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on November 12, 2014.

Basis for Presentation

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

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

All intercompany accounts and transactions have been eliminated on consolidation.

3. CHANGES IN ACCOUNTING POLICIES

Future accounting policies not yet adopted

Financial instruments

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

In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the impact that this new standard is likely to have on its consolidated financial statements.

4. INVENTORIES

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

	September 30, 2014 \$	December 31, 2013 \$
Raw materials	255,300	224,671
Work in progress	297,964	-
Finished goods	333,071	98,911
	<u>886,335</u>	<u>323,582</u>

Inventories expensed to cost of goods sold during the three months ended September 30, 2014 are \$2,796,027 (September 30, 2013 - \$2,518,723).

5. LICENCES

During the year ended December 31, 2012 the Company entered into a new licence agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of \$44,439 to cover previous patent costs and commenced amortizing the licence over 15 years, in April 2012. Amortization of \$2,222 has been included in general and administration for the nine months ended September 30, 2014 (September 30, 2013 - \$2,222) (see note 16(d)).

During the year ended December 31, 2011, the Company entered into a new licensing agreement with the University of Guelph for an exclusive variety of a mint plant. This agreement replaced the agreement the Company entered during the year ended December 31, 2008. The Company paid a licensing fee of \$30,000 in 2008 and \$15,000 in 2011. The remaining unamortized portion of the licence fee from 2008 and the new fee in 2011 is being amortized over 10 years, being the term of the new licensing agreement, commencing in 2011. Amortization of \$1,125 has been included in general and administration for the nine months ended September 30, 2014 (September 30, 2013 - \$3,375) (see note 16(c)). During the quarter ended September 30, 2014 the cost of the licence fee of \$45,000 and accumulated amortization of 19,125 were written off and included in other operating loss as a result of a decision by the Company to terminate the licence agreement.

Cost of Licenses	\$
Balance - December 31, 2013	89,439
Additions	-
Write off	(45,000)
<u>Balance - September 30, 2014</u>	<u>44,439</u>
Accumulated amortization	
Balance - December 31, 2013	23,185
Amortization	3,347
Write off	(19,125)
<u>Balance - September 30, 2014</u>	<u>7,407</u>
Net book value	
<u>Balance - September 30, 2014</u>	<u>37,032</u>
<u>Balance - December 31, 2013</u>	<u>66,254</u>

6. PROPERTY AND EQUIPMENT

	Equipment not available for use	Manufacturing Equipment	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Cost	\$	\$	\$	\$	\$	\$
December 31, 2013	27,939	3,645,045	82,100	300,101	277,301	4,332,486
additions	1,644,060	51,031	140,245	81,639	1,831,857	3,748,832
cost reduced by grant	(211,155)	-	-	-	-	(211,155)
disposal	-	(10,209)	(8,844)	(12,970)	-	(32,023)
September 30, 2014	1,460,844	3,685,867	213,501	368,770	2,109,158	7,838,140
Accumulated depreciation						
December 31, 2013	-	2,042,607	68,710	247,781	120,364	2,479,462
additions	-	186,375	4,310	14,334	-	205,019
disposal	-	(6,721)	(8,675)	(12,947)	-	(28,343)
September 30, 2014	-	2,222,261	64,345	249,168	120,364	2,656,138
Carrying value						
September 30, 2014	1,460,844	1,463,606	149,156	119,602	1,988,794	5,182,002
December 31, 2013	27,939	1,602,438	13,390	52,320	156,937	1,853,024

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

Depreciation expense allocation for the following periods:

	Cost of goods sold	Inventory	General and administration	Total
	\$	\$	\$	\$
Nine Months Ended September 30, 2014	135,992	32,920	36,107	205,019
Nine Months Ended September 30, 2013	177,405	17,606	25,395	220,406

7. LONG-TERM DEBT

	September 30, 2014	December 31, 2013
	\$	\$
Loan payable secured by a general security agreement, due January, 2018 (a).	627,128	758,033
Loan payable secured by certain intellectual property due January, 2019 (b).	1,238,027	1,465,500
Loan payable secured by a general security agreement due April, 2019 (c).	1,478,516	579,352
Loan payable secured by a forklift due June, 2018 (d).	46,315	-
Transaction costs	(68,065)	(80,869)
	3,321,921	2,722,016
Less current portion	751,895	499,718
	2,570,026	2,222,298

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

Period Ended September 30, 2014	97,550
Period Ended September 30, 2013	26,657

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

(b) During the year ended December 31, 2013, the Company entered into a new loan agreement which is secured by certain intellectual property and due January 2, 2019. The loan is for 1 million Euros, is repayable over 5 years at an interest rate of 2.85%. At September 30, 2014 the loan balance was \$1,238,027 in Canadian currency. 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, 2014, the monthly payment is \$25,337 in Canadian currency.

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

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

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

8. EMPLOYEE FUTURE BENEFITS OBLIGATION

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

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

The agreement was revised during the year ended December 31, 2013 and the total amount of \$277,009 will be paid as per the following installments:

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

As a result of an amendment to the agreement, the Company recorded a loss on curtailment of \$14,815 in the year ended December 31, 2013. The present value of the installments at September 30, 2014 was \$126,281 and no further expenses under current service costs will be incurred as a result of this amendment.

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Accrued benefit obligation	\$	\$
Unfunded balance, beginning of period	272,982	217,219
Current service cost	-	18,301
Loss on curtailment (or past service costs)	-	14,815
Interest costs on accrued benefit obligation	3,299	5,731
Actuarial losses, net of \$nil tax	-	16,916
Benefit repayment	(150,000)	-
	126,281	272,982
Less current portion	126,281	145,973
	-	127,009

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Elements of defined benefit costs recognized in the period	\$	\$
Current service cost	-	18,301
Loss on curtailment	-	14,815
Interest cost on accrued benefit obligation	3,299	5,731
	3,299	38,847

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

9. SHARE CAPITAL

- a. Authorized
 - i. Unlimited number of Class A voting common shares. Class A common shares have no par value.
 - ii. Unlimited number of Class B non-voting common shares. There are no issued Class B shares.
- b. Issued - Class A common shares

	Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance at beginning of the period	60,278,948	6,315,858	60,278,948	6,315,858
Stock options exercised	950,000	213,282	-	-
Balance at end of the period	61,228,948	6,529,140	60,278,948	6,315,858

c. Stock options outstanding are as follows:

Fair Value \$	Exercise Price \$	Year of Expiration	Weighted Average Contractual Life Remaining (years)	September 30, 2014 Number of Options	December 31, 2013 Number of Options
0.13	0.14	2024	9.7	250,000	-
0.08	0.10	2024	9.3	885,000	-
0.05	0.10	2023	8.3	1,200,000	1,265,000
0.09	0.10	2022	7.8	300,000	300,000
0.11	0.15	2016	1.8	325,000	325,000
0.06	0.10	2015	0.9	330,000	430,000
0.10	0.13	2014	-	-	825,000
			7.2	3,290,000	3,145,000

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

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

10. CAAP LOAN

The balance of repayable contribution is derived as follows:

	Nine Months Ended September 30, 2014 \$	Year Ended December 31, 2013 \$
Opening balance	363,471	220,978
Funding received or receivable	-	197,495
Grant revenue recognised	-	(97,072)
Accretion of CAAP loan	43,373	42,070
	406,844	363,471
Less current portion	80,814	72,942
	326,030	290,529

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

11. RELATED PARTY TRANSACTIONS

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

	Nine Months Ended September 30,	
	2014	2013
	\$	\$
Royalties earned by employees and directors	25,666	18,922
Amounts payable to employees and directors included in royalties payable	8,719	6,497
Key management salaries, short-term benefits, consulting fees and director fees	382,350	510,675
Key management personnel share based payments	32,274	35,537
Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities	21,000	21,000
Amount payable to directors	28,750	28,750

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

12. OTHER OPERATING LOSS

	Quarters		Nine Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Foreign exchange loss (income)	(41,116)	(4,351)	(21,314)	9,935
Loss on write off of licence	-	-	25,875	-
Loss on disposal of property and equipment	-	-	3,680	-
Other (income)	(18,509)	(1,131)	(21,342)	(4,862)
Plant relocation costs	100,606	80,597	293,803	161,597
	40,981	75,115	280,702	166,670

13. FINANCE COSTS

	Quarters		Nine Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Interest on royalty financial liability	11,484	5,902	18,188	19,949
Interest on long-term debt	36,778	7,563	97,550	26,657
Transaction costs	4,043	17,470	12,804	17,470
Royalties to University of Guelph & AAFC	-	-	47,500	22,500
Accretion of CAAP loan	14,750	11,426	43,373	30,428
	67,055	42,361	219,415	117,004

14. SEGMENTED INFORMATION

The Company operates in one industry segment, which is the active ingredient product technology industry. The majority of the revenue is derived from sales in the United States. 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,	
	2014	2013	2014	2013
	\$	\$	\$	\$
United States	2,196,264	1,646,961	5,829,952	4,003,049
Germany	231,455	318,826	884,359	824,738
Other	16,663	28,925	115,491	179,040
Canada	574	2,686	1,237	15,172
	2,444,956	1,997,398	6,831,039	5,021,999

15. EMPLOYEE BENEFITS

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Employee benefits	578,966	575,695	1,764,570	1,727,686

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

16. CONTINGENCIES AND COMMITMENTS

a) During the year ended December 31, 2011, the Company and its wholly owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$724,500 pursuant to a product development agreement. The Company and Ceapro Veterinary Products Inc. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

b) During the year ended December 31, 2012, the Company and its wholly owned subsidiary, Ceapro Technology Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$1,470,000 pursuant to two product development agreements. The Company and Ceapro Technology Inc. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

c) During the year ended December 31, 2008, the Company entered into a licencing agreement with the University of Guelph for an exclusive variety of a mint plant. During the year ended

December 31, 2011, the Company entered into a new licensing agreement with the University of Guelph for additional market rights for the exclusive variety of a mint plant.

In accordance with the new agreement, there are future minimum royalty prepayments of \$10,000 per annum starting in 2012 for royalty payments which will be calculated as 5% of net sales from products derived from the mint plants. The minimum royalty payments are creditable against royalties in years where royalties are due. The agreement is an executory contract and therefore all royalty payments under the contract will be recognized as they become due.

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

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

<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.

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

17. FINANCIAL INSTRUMENTS

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

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

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

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

The royalty financial liability was estimated using a discount rate that results from the estimated future repayment of that obligation which is based on expected sales. As there has been no significant change in estimated future repayments, and as the estimated discount rate also approximates the Company's estimated cost of capital for similar borrowing arrangements, management believes the carrying amount of this obligation does not differ significantly from its fair value (level 3).

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

a) Credit risk:

Trade and other receivables

The Company makes sales to customers that are well-established within their respective industries. Based on previous experience the counterparties had zero default rates and management views this risk as minimal. Approximately 89% of trade receivables are due from three customers at September 30, 2014 and all trade receivables are current. These main customers present good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$390,609 at September 30, 2014 and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

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

b) Liquidity risk:

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

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

	0 - 1 year \$	1 - 3 years \$	4 - 7 years \$	8-12 years	Total \$
Accounts payable and accrued liabilities	1,315,679	-	-	-	1,315,679
Loan payable secured by certain intellectual property due January, 2019.	304,044	608,088	405,392	-	1,317,524
Loan payable secured by a general security agreement due April, 2019.	352,227	704,453	557,693	-	1,614,373
Long-term debt, including interest	200,082	400,164	66,694	-	666,940
Loan payable secured by a forklift due June, 2018.	14,004	28,008	10,503	-	52,515
Royalties interest payable	43,075	-	-	-	43,075
Repayable CAAP funding	83,883	167,766	335,536	83,883	671,068
Total	2,312,994	1,908,479	1,375,818	83,883	5,681,174

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	429,620	4,296	(4,296)
Financial Liabilities			
Accounts payable and accrued liabilities and Deferred revenue	155,535	(1,555)	1,555
Total increase (decrease)		2,741	(2,741)

	Carrying Amount (EURO)	Foreign Exchange Risk (EURO)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial Liabilities			
Long-term debt	874,746	(8,747)	8,747
Total increase (decrease)		(8,747)	8,747

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

2. Interest rate risk.

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

18. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2013.

19. INCOME PER COMMON SHARE

	Quarters		Nine Months	
	Ended September 30, 2014	2013	Ended September 30, 2014	2013
Net income for the year for basic and diluted earnings per share calculation	\$689,997	\$123,183	\$1,497,392	\$279,639
Weighted average number of shares outstanding	61,228,948	60,278,948	60,725,817	60,278,948
Potential shares to be issued for options exercisable	1,767,544	-	1,037,021	-
Diluted shares outstanding	62,996,492	60,278,948	61,762,838	60,278,948
Income per share - basic	\$0.01	\$0.00	\$0.02	\$0.00
Income per share - diluted	\$0.01	\$0.00	\$0.02	\$0.00

20. SUBSEQUENT EVENTS

Subsequent to the period ended September 30, 2014, 185,000 stock options were exercised for proceeds of \$21,000.