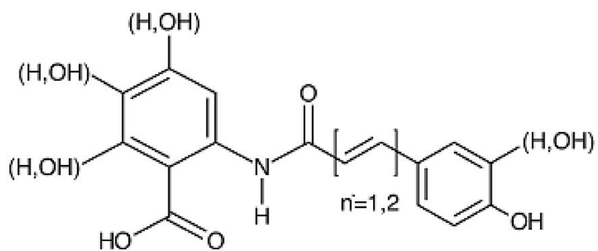

TSX-V: CZO

Annual Report 2014

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Ceapro Inc. is a Canadian biotechnology company involved in the development of proprietary extraction technology and the application of this technology to the production of extracts and "active ingredients" from oats and other renewable plant resources. Ceapro adds further value to its extracts by supporting their use in cosmeceutical, nutraceutical, and therapeutics products for humans and animals. The Company has a broad range of expertise in natural product chemistry, microbiology, biochemistry, immunology and process engineering. These skills merge in the fields of active ingredients, biopharmaceuticals and drug-delivery solutions.

Letter to Shareholders

Dear Fellow Shareholders

We are very pleased to report that 2014 was operationally record-breaking on many fronts for your company.

"***Upward to Greater Heights***," fittingly describes the best ever financial results in Ceapro's history where year over year revenues and net profit increased by 36% and 806%, respectively.

These financial results were achieved because of an all time increased demand for our flagship products, avenanthramides, even while maintaining investments in selected new product development.

Much time and effort was focused on advancing the realization of our new state-of-the-art manufacturing facility. Our offices and laboratories were moved to the new site in 2014 and the successful completion, implementation, and commissioning of the production area remains our top priority for 2015. An additional team of experts was hired to complete this critical project and we anticipate starting producing first validation trials during the second half of 2015.

Keeping the business up and running while implementing a special project is always a major challenge. We are thankful and proud of our dedicated employees who have successfully delivered on increased demand in a timely manner. This is evidence of what we can expect from our competent team when we transition and operate from our new facility.

Further, in order to minimize start-up risks and to comply with strict technical requirements from our major customers, we will run our two plants in parallel until the end of 2015. We shall also continue to build up inventory for our key product, avenanthramides, for which we expect another solid year in 2015.

Moving forward, while we have temporarily slowed the pace of our research and development programs with dry formulations of our value drivers, avenanthramides and beta glucan due to the site transition project, we expect to pursue their development as active ingredients to serve large, well-established, and growing markets such as functional foods, drinks, and nutraceuticals.

Our strategic transition to the functional food and/or nutraceutical sectors will represent a significant opportunity for Ceapro in the near and long term.

Moreover, we shall initiate a research program with our proprietary PGX platform technology for which we have recently obtained the worldwide rights for all industrial applications. We view this as a potential game-changer for Ceapro and expect to invest the necessary resources to advance this program as quickly as possible.

Looking at key accomplishments in 2014, we are very proud of our dedicated team who achieved the following:

- Financial Results vs. 2013

Total Sales	\$8,890,000 vs. \$6,524,000
Income from Operations	\$2,000,000 vs. \$ 447,000
Net Profit	\$1,594,000 vs. \$ 176,000
Cash from Operations	\$2,443,000 vs. \$ 490,000

- Signed a Development and Licensing Agreement with the University of Alberta for the use of an enabling **P**ressurized **G**as e**X**pansion (PGX) Technology for the development and large scale production of dry formulations;
- Received a prestigious BIOTECanada Gold Leaf Award as Emerging Company of the year in Industry and Agriculture;
- Awarded a non-reimbursable research grant from Alberta Innovates Bio Solutions to develop a novel functional energy drink formulation utilizing Ceapro's proprietary high-purity dry form beta glucan as an active ingredient in collaboration with the University of Alberta;
- Obtained encouraging results for increased yield of avenanthramides through the use of a malting technology licensed from Agriculture Canada;
- Moved offices and research and development laboratories to Ceapro's new facility in South Edmonton;
- Announced the Scientific Achievement & Innovation Award from BioAlberta honoring Ceapro's research scientist, Bernhard Seifried, Ph.D., a PGX Technology co-inventor; and
- Appointed world-renowned health and disease management expert, William W. Li, M.D. to the Board of Directors.

Subsequent to year-end

- Expanded the Company's licence agreement with the University of Alberta to include worldwide rights to develop and commercialize PGX Technology in all industrial fields;
- Signed a licence agreement with Arrgo for the continuity of a research project with flagship product, avenanthramides.
- Entered into a loan agreement at attractive rates with long-time partner Agriculture Financial Services Corporation for a commercial financing of up to $900,000;
- Completed a non-brokered private placement totalling $960,000;
- Appointed international pharmaceutical industry expert, Ulrich Kosciessa, Ph.D, to the Board of Directors.

We are more confident than ever that Ceapro has the key to new successes by offering: a de-risked business model with a base business in the cosmetic sector, which provides a revenue stream; well advanced near-term catalysts with dry beta glucan as a potential functional food/nutraceutical; and, long-term catalysts with dry formulations of avenanthramides for the nutraceutical and/or pharmaceutical markets.

This is an exciting time for all of us at Ceapro, as well as for our partners and shareholders. Our small group of employees is firmly committed to continue to deliver results with the goal of unlocking significant value for our shareholders. We sincerely thank everyone for their efforts in striving to make Ceapro one of the best biotech companies in Canada.

We are very grateful to our customers and you, our loyal Shareholders, for your continued support and confidence.

GILLES R. GAGNON, M.Sc., MBA, ICD.D
PRESIDENT AND CEO

GLENN ROURKE MBA, ICD.D
CHAIRMAN OF THE BOARD

April 27, 2015

Unique Bioprocessing Expertise

Ceapro's manufacturing has been done in Agrivalue Processing Business Incubator (APBI) since 2008. Up to date, Ceapro ended the fiscal year 2014 with the best full-year financial performance in its history, while building 12 months worth of product inventory and completing the construction of the new state-of-the-art facility. Having bypassed the level of incubator's capacity and having a solid foundation supported by great assets, the Company is going to graduate from APBI and move all its production operations to its own facility located in South Edmonton in 2015.

This unique bioprocessing facility comprising about 20,000 sq. ft. is by far the largest and most exciting project we have undertaken.

Ceapro will be one of the very few bioprocessors in Canada and the only one capable of producing its unique oat-derived products. Our facility will host the entire company under one roof, will hold a Natural Health Products site licence from Health Canada, and will be GMP qualified to meet the standards of some of the largest and most stringent multi-national companies. The facility is expected to come on stream at a time when a host of positive influences are coming together for Ceapro. These include a heightened awareness and acceptance to incorporate Mother Nature into our daily health care regimes, a sharply increased awareness and amount of research being conducted on our core value drivers, avenanthramides and beta glucan, and the commercialization of our development projects that have shown positive results to date.

Our development projects have focussed on our expertise in oats and developing new innovative natural health care products to address global needs. Oats have a host of well-documented health care benefits. However, in order to exploit these opportunities, numerous challenges must be overcome, including securing adequate and quality feedstock, developing proper formulations, achieving manufacturing scale up, and completing scientific testing. Our activities over the last few years have focussed on overcoming these challenges and we have been thrilled with the results to date.

There is a tremendous value in these new health care technologies, a value that is separate and distinct from Ceapro's traditional bioprocessing business.

We expect to be able to commercialize some of our development projects into new products for the medicinal food, nutraceutical, or pharmaceutical markets. Our next stories provide an update on these projects and what it means for Ceapro.

From Field to Formulation

Personal Care: Our Base Business

Our strategic path is clear: we will grow our customer base and presence in the personal care cosmetic market, while continuing to explore and clinically validate new product applications for our value drivers, avenanthramides and beta glucan under different formulations.

AVENANTHRAMIDES

Ceapro's flagship product, avenanthramides, is a group of polyphenol compounds found exclusively in oats. This group of molecules that work synergistically represent the active component of oats that provides relief for a host of skin conditions, such as eczema, chicken pox, and insect bites. Ceapro is the only company in the world producing the only commercial natural avenanthramide product which is featured in several of the best-selling global personal care brands.

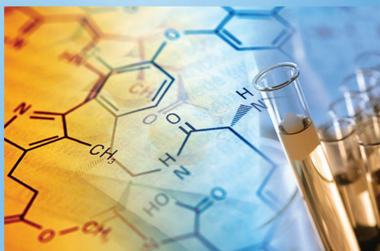
One of the challenges to further penetrate the personal care market is the relatively small supply of commercial oats that have adequate quantities of avenanthramides to be commercially profitable and therapeutic. Reliability of supply is also a challenge since the oat quality will vary widely from year to year; thus, making security of supply an issue. In 2012, Ceapro entered into two technology agreements with Agriculture and Agri Food Canada (AAFC) to address this situation. The first is an oat process technology that, when applied to a certain oat variety post-harvest, can drastically increase the avenanthramide content from non-commercial amounts to amounts well beyond what Ceapro has ever purchased on the open market. The second agreement provided access to a particular new oat variety (non-GMO), which consequently requires Ceapro to grow the variety.

AAFC Process Technology - Update and Ceapro's Opportunity

In 2014, using the AAFC technology, Ceapro boosted the concentrations of avenanthramides at a commercial scale, from nearly non-detectable levels up to levels more than double what Ceapro traditionally extracts. We then successfully ran commercial scale test extractions on our stimulated oats (non-GMO). In 2015, the process will be further validated and incorporated into our production at the new state-of-the-art facility.

The ability to grow large amounts of high yield oats that can be stimulated will overcome any limitations caused by scarce supply or procurement issues and will allow to serve larger markets. Furthermore, this project will provide a huge boost to the gross margin for Ceapro's bioprocessing business, since the contents of avenanthramides in the grain have been increased to previously unheard of levels.

High quality feedstock



Molecule identification and analytics

Optimization of products from nature

Bioprocessing and production

Commercial phytochemicals

Global personal care market

BETA GLUCAN

Ceapro's value driver product, beta glucan, is known as the anti-aging active ingredient included in well known brands. Studies have shown that beta glucan is highly effective in stimulating collagen synthesis and can play a prominent role in skin restructuring and wound healing.

Beta glucan extracted from oat is water soluble. Ceapro has shown the unusual ability of its oat-based beta glucan to penetrate skin deeply despite its large molecular weight. As a result, the use of oat beta glucan as a potential delivery system has attracted interest from multiple parties looking to improve the delivery of their therapeutic products. The potential to impregnate or encapsulate bioactives with formulations of beta glucan has increased the interest in determining its potential as a delivery platform.

Pressurized Gas eXpansion (PGX) Technology – Background and Update

Ceapro's oat beta glucan is currently sold as a liquid formulation. In order to fully exploit the potential of beta glucan, Ceapro embarked in 2012 in a major project to develop dry formulations. Ceapro then elected to conduct research work by using a technology developed at the University of Alberta. Such technology, based on supercritical conditions, enabled the successful development of dry formulations of beta glucan at the lab scale level.

In 2014, the goal was to establish the broad application potential of the PGX technology to effectively dry challenging biopolymers. A technical study was successfully conducted with the prestigious Massachusetts Institute of Technology to impregnate Coenzyme Q10 (CoQ10) onto dry beta glucan. This very exciting result opened up many opportunities to develop new products and superior formulations for the pharmaceutical and nutraceutical sectors, in line with our stated goals. This enabling technology was also tested on nano crystalline cellulose (CNC); the PGX technology produced a nano-particle aerogel product, something that was not possible with traditional spray drying. Throughout the year, Ceapro demonstrated the ability of the PGX technology to work and add value for other industries who face drying challenges with their biopolymers and biomaterials. In 2015, Ceapro has launched a "Beta Glucan/CoQ10" project with the University of Alberta to continue our transition towards other sectors. In addition, Ceapro continues to plan for its PGX demonstration plant.

From Plant to Pill

Healthcare: Our Near-Term and Long-Term Catalysts

Our strategic path is clear: while we will grow our customer base and presence in the personal care market, we will explore and clinically validate new product applications for our value drivers, avenanthramides and beta glucan in nutraceutical and pharmaceutical markets.

AVENANTHRAMIDES

In addition to cosmetics applications, it has been suggested that Ceapro's flagship product, avenanthramides, when taken orally could be beneficial in serious conditions like inflammatory bowel syndrome, atherosclerosis, colon cancer, and joint inflammation. These findings led to the idea that avenanthramides could be developed as an active pharmaceutical ingredient (API). In order to achieve this, we have to be able to produce it in adequate quantities to allow for a bioavailable formulation that will enable us to conduct clinical trials to demonstrate the safety and efficacy of avenanthramides in targeted indications.

High Purity Avenanthramides - Update and Ceapro's Opportunity

As mentioned in the personal care section, Ceapro has developed a process to increase concentrations of avenanthramides from oats. Also, in order to develop these compounds as an API, avenanthramides need to be highly purified and well characterized

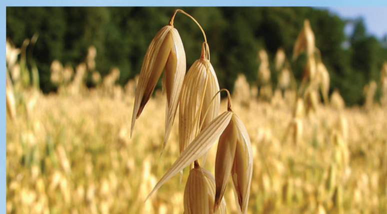
In 2014, Ceapro continued to characterize its high purity, high quality powder product. The results so far have indicated very exciting opportunities for the nutraceutical and/or pharmaceutical markets. Recently, industry players have initiated clinical studies with oat avenanthramides in order to investigate its bioavailability and metabolism profile.

BETA GLUCAN

Ceapro's value driver product, beta glucan, is also well known for its cholesterol lowering properties as well as modulating glucose metabolism. The high purity of the powder obtained with our Pressurized Gas eXpansion (PGX) technology leads us to the development of beta glucan beyond the personal care market and look at nutraceutical and pharmaceutical markets using beta glucan to target metabolic diseases.

High Purity Oat Beta Glucan - Update and Ceapro's Opportunity

Ceapro continued to set the stage for preclinical studies and further clinical trials for high purity dried oat beta glucan. In 2015, as mentioned in the personal care section, Ceapro has commenced the Beta Glucan/CoQ10 study with the University of Alberta and we anticipate that this novel dry Beta Glucan impregnated (iBG) formulation to be the first potential commercial application in the functional food sector.



Traditional plant source

Molecule identification and analytics

Process development and purification

Purified avenanthramides and betan glucan

Clinical validation

Commercial phytopharmaceuticals

:: Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the years ended December 31, 2014 and 2013, the financial position as at December 31, 2014, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 21, 2015. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2014, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2013, 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, 2013. All comparative percentages are between the years ended December 31, 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 April 21, 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 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;

- 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 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 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 two customers at December 31, 2014 (2013 – 94% from two customers) and all trade receivables at December 31, 2014 and 2013 are current. These main customers are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $272,845 at December 31, 2014 (2013 – $1,953,019) 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 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	1,791,145	–	–	–	1,791,145
Long-term debt obligations	867,877	1,735,755	820,010	–	3,423,642
Repayable CAAP funding	83,883	167,766	167,766	167,766	587,181
Total	**2,742,905**	**1,903,521**	**987,776**	**167,766**	**5,801,968**

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	365,092	3,651	(3,651)
Financial liabilities			
Accounts payable and accrued liabilities	392,649	(3,926)	3,926
Total increase (decrease)		(275)	275

	CARRYING AMOUNT (EURO)	FOREIGN EXCHANGE RISK (EURO)	
		– 1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial liabilities			
Long-term debt	827,159	(8,272)	8,272
Total increase (decrease)		(8,272)	8,272

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 December 31, 2014.

2. Interest rate risk

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

D) SHARE PRICE RISK

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

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

E) PEOPLE AND PROCESS RISK

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

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

the future that we believe to be both reasonable and conservative. Actual results could differ from those estimates. Ceapro continually evaluates the estimates and assumptions.

F) LOSS OF KEY PERSONNEL

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

G) INTERRUPTION OF RAW MATERIAL SUPPLY

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

H) ENVIRONMENTAL ISSUES

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

I) REGULATORY COMPLIANCE

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

FUTURE ACCOUNTING POLICIES NOT YET ADOPTED

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

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

IFRS 9 "FINANCIAL INSTRUMENTS" (2014)

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

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

IFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS"

IFRS 15 presents new requirements for the recognition of revenue, replacing 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 IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

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

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012

CONSOLIDATED INCOME STATEMENT

$000S EXCEPT PER SHARE DATA	**2014**	**%**	2013	%	2012	%
Total revenues	**8,890**	**100%**	6,524	100%	5,165	100%
Cost of goods sold	**4,126**	**46%**	3,425	52%	2,716	53%
Gross margin	**4,764**	**54%**	3,099	48%	2,449	47%
Research and product development	**578**	**7%**	731	11%	856	17%
General and administration	**1,984**	**22%**	1,709	26%	1,795	35%
Sales and marketing	**14**	**0%**	85	1%	199	4%
Finance costs	**188**	**2%**	127	2%	113	2%
Income (loss) from operations	**2,000**	**22%**	447	7%	(514)	– 10%
Other operating loss	**(406)**	**– 5%**	(271)	– 4%	(24)	0%
Net income (loss)	**1,594**	**18%**	176	3%	(538)	– 10%
Basic net income (loss) per common share	**0.026**		0.003		(0.009)	
Diluted net income (loss) per common share	**0.025**		0.003		(0.009)	

During the year ended December 31, 2014, the Company's revenue increased by 36% or $2,366,000 to $8,890,000 from $6,524,000 in 2013 and cost of goods sold increased by 20% or $701,000 to $4,126,000 from $3,425,000 in comparison with the same period of 2013. These changes resulted in an increase in the amount of gross margin by 54% or $1,665,000 to $4,764,000 in 2014 from $3,099,000 in 2013.

Income from operations has increased by $1,553,000 to $2,000,000 in 2014 from $447,000 during the year ended December 31, 2013.

Net income in the year ended December 31, 2014, has increased by $1,418,000 to $1,594,000 from $176,000 in 2013 mostly due to an increase in gross margin.

During the fourth quarter of 2014, the Company's revenue significantly increased by 37% or $557,000 to $2,059,000 from $1,502,000 in 2013 and cost of goods sold increased by 46% or $400,000 to $1,274,000 from $874,000 in comparison with the same period of 2013. These changes resulted in an increase in the amount of gross margin by 25% or $157,000 to $785,000 in 2014 from $628,000 in 2013.

Income from operations has increased by $221,000 to $222,000 in the fourth quarter of 2014 from $1,000 in the fourth quarter of 2013.

There was net income in the fourth quarter of 2014 of $97,000 in comparison with net loss of $104,000 in the same period of 2013.

REVENUE

	Year Ended December 31,			Quarter Ended December 31,		
$000S	**2014**	2013	CHANGE	**2014**	2013	CHANGE
Total revenues	**8,890**	6,524	36%	**2,059**	1,502	37%

PRODUCT SALES

Sales in the year ended December 31, 2014 increased by $2,366,000 or 36% primarily as a result of higher sales volumes of avenanthramides and oat oil. Total revenues were also positively impacted by a stronger U.S. dollar relative to the Canadian dollar.

Sales in the fourth quarter of 2014 increased by $557,000 or 37% primarily as a result of higher sales volumes of avenanthramides and oat oil and the strengthening of the U.S. dollar.

EXPENSES

COST OF GOODS SOLD AND GROSS MARGIN

	Year Ended December 31,			Quarter Ended December 31,		
$000S	**2014**	2013	CHANGE	**2014**	2013	CHANGE
Sales	**8,890**	6,524	36%	**2,059**	1,502	37%
Cost of goods sold	**4,126**	3,425	20%	**1,274**	874	46%
Gross margin	**4,764**	3,099	54%	**785**	628	25%
Gross margin %	**54%**	48%		**38%**	42%	

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 year ended December 31, 2014, cost of goods sold increased by $701,000 or 20%, from $3,425,000 in 2013 to $4,126,000 in 2014. The gross margin in the year ended December 31, 2014 is higher by 54% primarily due to higher sales and sales revenue in excess of the increases in cost of goods sold. The gross margin percentage increased by 6% from 48% in the year ended December 31, 2013 to 54% in the same period of 2014 due to favorable natural feedstock variations and a product sales mix weighted toward higher margin products.

During the fourth quarter of 2014, the cost of goods sold rose by $400,000 or 46%, from $874,000 in 2013 to $1,274,000 in 2014. The gross margin in the fourth quarter of 2014 was higher by 25% primarily due to higher sales and sales revenue in excess of the increase in cost of goods sold. The gross margin percentage decreased by 4% from 42% in the fourth quarter of 2013 to 38% in the same period of 2014, mainly due to the use of feedstock that presented some processing issues and therefore required additional purification steps which increased cost of goods sold.

RESEARCH AND PRODUCT DEVELOPMENT

	Year Ended December 31,			Quarter Ended December 31,		
$000S	**2014**	2013	CHANGE	**2014**	2013	CHANGE
Salaries and benefits	**301**	629		**(45)**	131	
Regulatory and patents	**138**	256		**25**	32	
Other	**114**	(172)		**2**	(3)	
	553	713	− 22%	**(18)**	160	− 111%
Product development – CeaProve®	**25**	18	39%	**3**	3	0%
Total research and product development expenditures	**578**	731	− 21%	**(15)**	163	− 109%

During the year ended December 31, 2014, research and development expenses before CeaProve® development decreased by 22% or $160,000 in comparison with the same period of 2013 due to decreased salary costs of $328,000 and regulatory and patents expenditure of $118,000. The higher patent costs in 2013 were due to the issue of key beta glucan patents in several European countries. The lower salary costs were a result of changing the priorities of some key staff from research and development activities to work on the new production process design for the new manufacturing facility. As the time of these individuals was directly related to the construction of the new production process, their time has been capitalized to the new facility.

CeaProve® costs have increased from $18,000 in 2013 to $25,000 in 2014 due to patent costs.

During the fourth quarter of 2014, research and development expenses before CeaProve® development have decreased by 111% due to the capitalization of employee benefits adjusted for at year end.

CeaProve® costs in the fourth quarters of 2014 and 2013 were consistent.

GENERAL AND ADMINISTRATION

	Year Ended December 31,			Quarter Ended December 31,		
$000S	**2014**	2013	CHANGE	**2014**	2013	CHANGE
Salaries and benefits	**597**	626		**147**	159	
Consulting	**291**	274		**89**	71	
Board of directors compensation	**181**	139		**53**	31	
Insurance	**113**	115		**36**	28	
Accounting and audit fees	**90**	69		**16**	16	
Rent	**116**	94		**12**	28	
Public company costs	**68**	52		**22**	5	
Travel	**130**	124		**30**	32	
Depreciation	**82**	61		**43**	30	
Legal	**187**	44		**113**	8	
Other	**129**	111		**47**	35	
Total general and administration expenses	**1,984**	1,709	16%	**608**	443	37%

General and administration expenses for the year ended December 31, 2014 increased by $275,000 or 16% from $1,709,000 to $1,984,000 primarily due to higher board of directors' compensation from share-based payments, accounting and audit fees, rent, depreciation, and legal expenses relating to the AVAC trials.

During the fourth quarter of 2014, general and administration expenses increased by $165,000 or 37% mostly due to the same reasons as for the year ended.

SALES AND MARKETING

	Year Ended December 31,			Quarter Ended December 31,		
$000S	**2014**	2013	CHANGE	**2014**	2013	CHANGE
Travel	**–**	24		**–**	–	
Courses, conferences & advertising	**4**	46		**–**	–	
Other	**10**	15		**1**	11	
Total sales and marketing	**14**	85	−84%	**1**	11	−91%

Sales and marketing expenses in the year ended December 31, 2014 decreased by $71,000 or 84% in comparison with the same period of 2013. The fourth quarter of 2014 showed a consistent decrease in expenditures, with a $10,000 or 91% decrease versus the same quarter in 2013. Although our goal is to expand our business with existing customers and to explore potential opportunities with new customers, in fiscal 2014, the decision was made to place a greater marketing emphasis on distribution partners which requires lower levels of expenditure.

FINANCE COSTS

	Year Ended December 31,			Quarter Ended December 31,		
$000S	**2014**	2013	CHANGE	**2014**	2013	CHANGE
Interest on royalty financial liability	**18**	25		**–**	5	
Interest on long-term debt	**46**	35		**(51)**	8	
Transaction costs	**18**	2		**5**	(15)	
Royalties to University of Guelph & AAFC	**48**	23		**–**	–	
Accretion of CAAP loan	**58**	42		**15**	12	
	188	127	48%	**(31)**	10	−410%

As at December 31, 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. During the year ended December 31, 2014, the Company fully recognized the remaining royalty financial liability. The final royalty payment to investors of $43,075 was paid in the first quarter of fiscal 2015 and no further royalties will be payable under this royalty agreement.

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 year ended December 31, 2014 in comparison with the same period of 2013 primarily due to an increase in the minimum royalties payable to AAFC, an increase in the accretion of the CAAP loan, and increased

interest on long-term debt due to new debt facilities added. The decrease in interest on long-term debt in the fourth quarter was a result of the capitalization of borrowing costs at year-end.

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 $58,000 in the year ended December 31, 2014 (December 31, 2013 – $42,000).

OTHER OPERATING LOSS (INCOME)

	Year Ended December 31,			Quarter Ended December 31,		
$000S	**2014**	2013	CHANGE	**2014**	2013	CHANGE
Foreign exchange (income) loss	**(27)**	23		**(6)**	13	
Loss on write-off of licence	**26**	–		**–**	–	
Loss on disposal of property and equipment	**4**	12		**–**	12	
Other (income) loss	**(3)**	(4)		**19**	1	
Plant relocation costs	**406**	240		**112**	79	
	406	271	50%	**125**	105	19%

Foreign exchange income in the year ended December 31, 2014 was $27,000 in comparison with a loss of $23,000 in 2013 due to the fluctuations of the US dollar and Euro versus the Canadian dollar in comparison with the same period of 2013. Gains, particularly against Euro denominated long-term debt, were recognized in the three months ended December 31, 2014. A one-time charge of $26,000 to write off a licence was recognized in the year ended December 31, 2014 as a result of a decision by the Company to terminate the associated agreement. Plant relocation costs represent costs incurred relating to the new manufacturing facility that are not directly related to the acquisition and construction of the new manufacturing facility and therefore are not eligible to be capitalized.

DEPRECIATION AND AMORTIZATION EXPENSES

In the year ended December 31, 2014 the total depreciation and amortization of $296,000 (2013 – $293,000) was allocated as follows: $86,000 to general and administration expense (2013 – $62,000), $24,000 to inventory (2013 – $6,000), and $186,000 (2013 – $225,000) 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.

	2014				2013			
$000S EXCEPT PER SHARE DATA	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total revenues	**2,059**	**2,445**	**2,432**	**1,954**	1,503	1,997	1,012	2,012
Net income (loss)	**97**	**690**	**630**	**177**	(103)	123	(252)	408
Basic net income (loss) per common share	**0.002**	**0.011**	**0.010**	**0.003**	(0.002)	0.002	(0.004)	0.007
Diluted net income (loss) per common share	**0.001**	**0.011**	**0.010**	**0.003**	(0.002)	0.002	(0.004)	0.007

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

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EMPLOYED

$000S	**December 31, 2014**	December 31, 2013
Non-current assets	**6,035**	1,948
Current assets	**1,648**	3,149
Current liabilities	**(2,965)**	(2,213)
Total assets less current liabilities	**4,718**	2,884
Non-current liabilities	**2,626**	2,640
Shareholders' equity	**2,092**	244
Total capital employed	**4,718**	2,884

Non-current assets increased by $4,087,000 due to an acquisition of $4,405,000 of property and equipment (net grant proceeds) offset by a depreciation provision of $296,000, fixed asset disposals of $4,000, licence write-off of $26,000 offset by an increase in deposits of $8,000.

Current assets decreased by $1,501,000. Cash decreased by $1,680,000, trade and other receivables increased by $104,000, prepaid expenses decreased by $281,000, and inventories increased by $356,000.

Current liabilities totaling $2,965,000 increased by the net amount of $752,000 mostly due to an increase in the current portion of long-term debt of $269,000, an increase in trade payables and accrued liabilities of $796,000 offset by a decreased employee future benefit obligation of $19,000, a decrease in royalty related obligations of $95,000, and a decrease in deferred revenue of $199,000.

Non-current liabilities totaling $2,626,000 decreased by the net amount of $14,000 due to long-term debt increases of $139,000 offset by decrease in the discounted CAAP loan in the amount of $26,000, and accrued employee future benefit obligation reclassified to current liabilities in the amount of $127,000.

Equity of $2,092,000 at December 31, 2014 increased by $1,848,000 from equity of $244,000 at December 31, 2013 due to net income for the year ended December 31, 2014 of $1,594,000 and recognized share-based compensation of $112,000, and proceeds from share options exercised of $142,000.

NET DEBT

$000S	**December 31, 2014**	December 31, 2013
Cash and cash equivalents	**273**	1,953
Current financial liabilities*	**2,675**	1,705
Non-current financial liabilities*	**2,626**	2,513
Total financial liabilities	**5,301**	4,218
NET DEBT	**5,028**	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 $2,763,000 due to a decrease of cash and cash equivalent in the amount of $1,680,000, accounts payable and accrued liabilities increase of $796,000, long-term debt increase in the amount of $408,000, CAAP loan discounted amount net decreased of $26,000, and 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 December 31, 2014 and 2013.

	Year Ended December 31,		Quarter Ended December 31,	
$000S	**2014**	2013	**2014**	2013
Sources of funds:				
Funds generated from operations (cash flow)	**2,158**	621	**118**	(34)
Changes in non-cash working capital items	**422**	(50)	**830**	232
Restricted cash received and utilized	**–**	709	**–**	–
Grant used for capital assets	**295**	1,624	**84**	915
Repayable CAAP Funding	**–**	198	**–**	67
Share issuance	**142**	–	**22**	–
Long-term debt, net of repayments	**1,072**	2,045	**–**	2,045
	4,089	5,147	**1,054**	3,225
Uses of funds:				
Purchase of property and equipment	**(2,337)**	(663)	**(429)**	(542)
Purchase of leasehold improvements	**(2,283)**	(1,641)	**(451)**	(1,012)
Purchase of prepaid deposits from grant	**–**	(37)	**–**	43
Employee future benefits obligation repayment	**150**	–	**–**	–
Deferred revenue reduction	**–**	(709)	**–**	–
Interest paid	**(137)**	(81)	**(28)**	(13)
Repayment of royalty financial liability	**(95)**	(87)	**18**	(26)
Transaction costs	**–**	(81)	**–**	(81)
Repayable CAAP funding	**(84)**	–	**(84)**	–
Repayment of long-term debt	**(683)**	(168)	**(198)**	(43)
	(5,769)	(3,467)	**(1,172)**	(1,674)
Net change in cash flows	**(1,680)**	1,680	**(118)**	1,551

Net change in cash flow decreased by $3,360,000 during the year ended December 31, 2014 in comparison with the same period of 2013 primarily due to the significant investment made on its new manufacturing facility.

The Company is currently in progress to complete its new manufacturing facility which involves substantial capital expenditures for engineering and design, permitting, construction of leaseholds, equipment, as well as other related costs required to meet the strict requirements for major customers. The scope of the original planned manufacturing facility has been redefined throughout fiscal 2014 to take advantage of new manufacturing process design opportunities that are expected to provide value to the Company and its shareholders in future years. As a result, the facility has not yet been completed and the overall planned investment for the first phase of the facility has been expanded and is currently estimated at $12,200,000 of which the Company has completed and recorded approximately $6,500,000 at December 31, 2014. As a result of the increased scope of the project, the Company had a working capital deficiency of approximately $1,317,000 at December 31, 2014 and will require additional financing to complete the first phase of the manufacturing facility.

Subsequent to the year end, the Company issued an aggregate of $960,000 of unsecured 8% convertible debentures that mature on December 31, 2016 and entered into a new loan agreement which can be drawn to a maximum of $900,000, bears interest at 3.84%, and will mature on July 1, 2020. The proceeds from these new financings will be used

to address the working capital deficiency that exists at December 31, 2014 and towards completion of the Company's new manufacturing facility.

The Company estimates that the cash flows generated by its operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, ongoing capital investment, and current debt repayment, but will still require additional funds in the amount of $3,700,000 to complete the new manufacturing facility.

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

Total common shares issued and outstanding as at April 21, 2015 were 61,632,281 (April 14, 2014 – 60,403,948). In addition, 3,881,667 stock options as at April 21, 2015 (April 14, 2014 – 3,950,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

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

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

GOVERNMENT FUNDING

a) During the year ended December 31, 2010, the Company was approved for non-repayable funding in the amount of $124,000 from Alberta Innovates Technology Futures (AITF). During the year ended December 31, 2014, the Company received $nil (2013 – $9,166) which was recorded as a reduction of research and product development expenses. This agreement was completed during the year ended December 31, 2013.

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 current year, the Company received $18,333 (2013 – $62,000) which was recorded as a reduction of research and project development expenses. This agreement has been completed at December 31, 2014.

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 year ended December 31, 2014 (2013 – $5,000). This agreement was completed during the year ended December 31, 2013.

d) The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the year from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to $671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended one year to September 30, 2013. All amounts claimed under the program are repayable interest free over eight years beginning in 2014. The Company 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.

e) 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 amount of $nil (2013 – $1,398,777) was recorded as a reduction of capitalized expenditures. 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 year ended December 31, 2014, the Company received or recorded as receivable the amount of $nil (December 31, 2013 – $302,909). This agreement was completed during the year ended December 31, 2013.

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 year ended December 31, 2014, the Company received or recorded as receivable the amount of $300,254, (December 31, 2013 – $192,345) of which $294,623 was recorded as a reduction of capitalized expenditures. The Company received an additional $79,640 in 2015 and the project was completed.

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

i) 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 year ended December 31, 2014, the Company recorded $20,242 as a receivable. The Company received an additional $8,443 in 2015 and the project was completed.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2014, $26,000 (2013 – $25,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at December 31, 2014, $8,700 (2013 – $6,000) of royalties were payable to employees and directors.

During the year ended December 31, 2014, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling $519,000 (2013 – $672,000), and key management personnel received share-based payments of $57,000 (2013 – $41,000).

Amount payable to directors at December 31, 2014 was $29,000 (2013 – $29,000).

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

COMMITMENTS AND CONTINGENCIES

a) During the year ended December 31, 2011, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of $724,500 pursuant to a product development agreement. The Company and Ceapro Veterinary Products Inc. 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, 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 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 year ended December 31, 2014, the Company decided to terminate the licence agreement and no further royalties will be payable.

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

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

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

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

e) 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 on 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 are very pleased with the 2014 results showing the highest full year revenue in Ceapro's history with an increase of 36% or $ 2,366,000 over the full year ended December 31, 2013 as well as showing a net profit of $1,594,000 compared to a net profit of $176,000 in 2013. These results were achieved while advancing the implementation of a new state-of-the-art manufacturing facility and maintaining investments in selected new product development.

Offices and laboratories were moved to the new site in 2014. While the successful completion, implementation, and commissioning of the production area remains our top priority for 2015, in parallel, we are committed to remain laser-focused on executing our strategic imperatives for growth that will drive significant value to all of our shareholders in the near, mid, and long term.

Moving forward, while we have temporarily slowed down the pace of our research and development programs with dry formulations of our value drivers, avenanthramides and beta glucan, due to the site transition project, we expect to pursue their development as active ingredients to serve large, well-established, and growing markets like functional foods, drinks, and nutraceuticals. We are in the process of evaluating investment and financing options so we can move forward as rapidly as possible to assess their safety and efficacy through pre-clinical and clinical research programs to be conducted over a 24-month period. Our strategic transition to the functional food and/or nutraceutical sectors will represent a significant opportunity for Ceapro in the near and long term.

Further, we will initiate a research program with our proprietary PGX platform technology for which we have recently obtained the worldwide rights for all industrial applications. We view this as a potential game changer for Ceapro and expect to invest the necessary resources to advance this program forward.

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.

:: Consolidated Financial Statements

MANAGEMENT'S REPORT

TO THE SHAREHOLDERS OF **CEAPRO INC.,**

The accompanying consolidated financial statements of Ceapro Inc., and all information presented in this report, are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards. The consolidated financial statements include some amounts that are based on the best estimates and judgments of Management. Financial information used elsewhere in the report is consistent with that in the consolidated financial statements.

To further the integrity and objectivity of data in the consolidated financial statements, Management of the Company has developed and maintains a system of internal controls, which Management believes will provide reasonable assurance that financial records are reliable and form a proper basis for preparation of consolidated financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in the report principally through its Audit Committee. The Audit Committee is appointed by the Board, and all of its members are outside and unrelated Directors. The Committee meets periodically with Management and the external auditors to discuss internal controls over the financial reporting process and financial reporting issues, to make certain that each party is properly discharging its responsibilities, and to review quarterly reports, the annual report, the annual consolidated financial statements, management discussion and analysis, and the external auditor's report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Company's auditors have full access to the Audit Committee, with and without Management being present.

The consolidated financial statements have been audited by the Company's auditors, Grant Thornton LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

SINCERELY,

SIGNED "Gilles Gagnon"
President and Chief Executive Officer

SIGNED "Branko Jankovic, CA"
Chief Financial Officer and Vice President, Finance

April 21, 2015

Independent Auditor's report

Grant Thornton LLP
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To the Shareholders of
Ceapro Inc.

We have audited the accompanying consolidated financial statements of Ceapro Inc., which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated balance sheets of Ceapro Inc. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has a significant working capital deficiency as a result of an ongoing project, which requires additional capital financing to complete. The Company will be reliant on identifying and receiving additional proceeds from additional financing to meet the costs required to complete the project. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Edmonton, Canada

Grant Thornton LLP

April 21, 2015

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

	December 31, 2014 $	December 31, 2013 $
ASSETS		
Current Assets		
Cash and cash equivalents	**272,845**	1,953,019
Trade receivables	**423,567**	250,859
Other receivables	**210,904**	279,413
Inventories (note 4)	**679,265**	323,582
Prepaid expenses and deposits	**61,502**	342,289
	1,648,083	3,149,162
Non-Current Assets		
Deposit	**36,903**	28,562
Licenses (note 5)	**36,292**	66,254
Property and equipment (note 6)	**5,961,951**	1,853,024
	6,035,146	1,947,840
TOTAL ASSETS	**7,683,229**	5,097,002
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**1,791,145**	994,408
Deferred revenue (note 9)	**162,279**	361,309
Current portion of long-term debt (note 7)	**768,345**	499,718
Current portion of employee future benefits obligation (note 10)	**127,009**	145,973
Current portion of CAAP loan (note 12)	**72,942**	72,942
Royalties interest payable (note 8b)	**43,075**	31,631
Current portion of royalty financial liability (note 8b)	**–**	106,692
	2,964,795	2,212,673
Non-Current Liabilities		
Employee future benefits obligation (note 10)	**–**	127,009
Long-term debt (note 7)	**2,361,326**	2,222,298
CAAP loan (note 12)	**265,075**	290,529
	2,626,401	2,639,836
Equity		
Share capital (note 11b)	**6,565,927**	6,315,858
Contributed surplus (note 11c)	**507,505**	503,829
Accumulated other comprehensive loss	**(16,916)**	(16,916)
Deficit	**(4,964,483)**	(6,558,278)
	2,092,033	244,493
TOTAL LIABILITIES AND EQUITY	**7,683,229**	5,097,002

See accompanying notes

Approved on Behalf of the Board

SIGNED: “John Zupancic”
Director

SIGNED: “Donald J. Oborowsky”
Director

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

Year Ended December 31,	**2014** **$**	2013 $
Revenue (note 13)	**8,890,256**	6,524,062
Cost of goods sold	**4,126,484**	3,425,248
Gross margin	**4,763,772**	3,098,814
Research and product development	**578,361**	731,174
General and administration	**1,984,025**	1,709,053
Sales and marketing	**13,700**	84,897
Finance costs (note 16)	**187,969**	126,663
Income from operations	**1,999,717**	447,027
Other operating loss (note 15)	**(405,922)**	(271,219)
Net income for the year	**1,593,795**	175,808
Other comprehensive loss		
Actuarial loss on employee future benefit obligation (note 10)	**–**	(16,916)
Total comprehensive income for the year	**1,593,795**	158,892
Net income per common share (note 25):		
Basic	**0.03**	0.00
Diluted	**0.03**	0.00
Weighted average number of common shares outstanding	**60,901,619**	60,278,948

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital $	Contributed surplus $	Deficit $	Accumulated other comprehensive loss $	Equity $
Balance December 31, 2012	6,315,858	431,792	(6,734,086)	–	13,564
Share-based payments	–	72,037	–	–	72,037
Net income for the year	–	–	175,808	–	175,808
Other comprehensive loss (actuarial loss) (note 10)				(16,916)	(16,916)
Balance December 31, 2013	6,315,858	503,829	(6,558,278)	(16,916)	244,493
Share-based payments	–	111,995	–	–	111,995
Stock options exercised	250,069	(108,319)			141,750
Net income for the year	–	–	1,593,795	–	1,593,795
Balance December 31, 2014	6,565,927	507,505	(4,964,483)	(16,916)	2,092,033

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31	2014 $	2013 $
OPERATING ACTIVITIES		
Net income for the year	**1,593,795**	175,808
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Finance costs	**45,548**	82,634
Transaction costs	**18,532**	1,960
Depreciation and amortization	**296,383**	292,636
Loss on disposal of property and equipment	**3,680**	12,440
Loss on write-off of licence	**25,875**	–
Accretion of CAAP loan (note 12)	**58,430**	42,070
Grant revenue recognized	**–**	(97,072)
Employee future benefits obligation	**4,027**	38,847
Share-based payments	**111,995**	72,037
Net income for the year adjusted for non-cash items	**2,158,265**	621,360
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	**(172,708)**	2,542
Other receivables	**68,509**	(79,626)
Inventories	**(355,683)**	466,475
Prepaid expenses and deposits	**272,446**	(218,073)
Deferred revenue	**(199,030)**	(629,024)
Royalty liability accrued	**11,444**	(5,234)
Accounts payable and accrued liabilities	**796,737**	412,586
Net income for the year adjusted for non-cash and working capital items	**421,715**	(50,354)
Interest paid	**(136,608)**	(80,988)
CASH GENERATED FROM OPERATIONS	**2,443,372**	490,018
INVESTING ACTIVITIES		
Purchase of property and equipment	**(2,337,054)**	(662,639)
Purchase of leasehold improvements	**(2,282,812)**	(1,640,714)
Purchase of prepaid deposits from grant	**–**	(36,926)
Purchase of licenses	**–**	–
CASH USED BY INVESTING ACTIVITIES	**(4,619,866)**	(2,340,279)
FINANCING ACTIVITIES		
Long-term debt	**1,071,678**	2,044,852
Employee future benefits obligation repayment	**(150,000)**	–
Stock options exercised	**141,750**	–
Transaction costs	**–**	(80,869)
Repayment of long-term debt	**(682,555)**	(168,502)
Repayment of CAAP loan (note 12)	**(83,884)**	–
Grant used for purchasing of leaseholds, property and equipment, and prepaid deposits	**294,623**	1,623,987
CAAP loan	**–**	197,495
Deferred revenue	**–**	(708,777)
Restricted cash and cash equivalents	**–**	708,777
Repayment of royalty financial liability	**(95,292)**	(86,789)
CASH GENERATED FROM FINANCING ACTIVITIES	**496,320**	3,530,174
(Decrease) increase in cash and cash equivalents	**(1,680,174)**	1,679,913
Cash and cash equivalents at beginning of year	**1,953,019**	273,106
Cash and cash equivalents at end of year	**272,845**	1,953,019

See accompanying notes

Cash and cash equivalents are comprised of $266,054 (2013 – $946,304) on deposit with financial institutions, $6,791 (2013 – $6,715) held in money market mutual funds, and $nil (2013 – $1,000,000) held in guaranteed investment certificates.

:: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 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 Avenue, Edmonton, AB T6E 6W2.

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge liabilities in the normal course of operations. However, certain conditions may cast significant doubt upon the validity of this assumption. The Company is currently in progress to complete a new manufacturing facility which involves substantial capital expenditures for engineering and design, permitting, construction of leaseholds, equipment, as well as other related costs required to meet the strict requirements of major customers. The scope of the original planned manufacturing facility has been redefined throughout fiscal 2014 to take advantage of new manufacturing process design opportunities that are expected to provide value to the Company and its shareholders in future years. As a result, the facility has not yet been completed and the overall planned investment for the first phase of the facility has been expanded and is currently estimated at $12,200,000, of which the Company has completed and recorded approximately $6,500,000 at December 31, 2014. As a result of the increased scope of the project, the Company had a working capital deficiency of $1,316,712 at December 31, 2014 and will require additional financing to complete the first phase of the manufacturing facility.

When a new manufacturing facility is brought into commercial production, there is always a risk as to the magnitude of investment of human and financial resources required for start up and commissioning activities. While the Company intends to fully utilize its expertise and 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.

Subsequent to the year end, the Company issued an aggregate of $960,000 of convertible debentures and entered into a new loan agreement which can be drawn to a maximum of $900,000 (see note 26). The proceeds from these new financings will be used to address the working capital deficiency that exists at December 31, 2014 and towards completion of the Company's new manufacturing facility. However, the Company will still require additional funds of approximately $3,700,000 to complete the first phase of the manufacturing facility.

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

These consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets and liabilities, 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Board of Directors authorized these consolidated financial statements for issue on April 21, 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.

C) USE OF MANAGEMENT CRITICAL JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to make critical judgments, estimates, and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses recorded during the reporting period. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management critical judgments

Policies that are critical for the presentation of the financial position and financial performance of the Company and that require judgments are discussed below.

Functional currency

The functional currency for the Company and each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates; the Company has determined the functional currency of each entity to be the Canadian dollar. Such determination involves certain judgments to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

Leases

Management considers all current leases as operating leases. In making their judgment, management considered the detailed criteria for the capital lease recognition set out in IAS 17 *Lease* and, in particular, whether the Company had been transferred substantially all the risks and rewards incidental to ownership.

Management estimates and assumptions

Policies that are critical for the presentation of the financial position and financial performance of the Company and that require estimates and assumptions are discussed below.

Employee benefits

The Company has an unfunded post-employment defined benefit pension plan. The liability for this plan recognized in the balance sheet of the Company is the present value of the defined benefit obligation. The costs related to this pension plan are included in profit or loss. The critical assumption used to determine the Company's obligation is the discount rate applied to the obligation. Management determines the appropriate discount rate at the end of each year by considering the interest rate of high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability.

Provisions

The Company records provision for matters where a legal or constructive obligation exists at the balance sheet date, as a result of past events and a reliable estimate can be made of the obligation. These matters might include restructuring projects, legal matters, disputed issues, indirect taxes, and other items. These obligations may not be settled for a number of years and a reliable estimate has to be made of the likely outcome of each of these matters. These provisions represent our best estimate of the costs that will be incurred, but actual experience may differ from the estimates made and therefore affect future financial results. The effects would be recognized in profit or loss.

Taxation

The Company makes estimates in respect of tax liabilities and tax assets. Full provision is made for future and current taxation at the rates of tax prevailing at the year end unless future rates have been substantively enacted. These calculations represent our best estimate of the costs that will be incurred and recovered but actual experience may differ from the estimates made and therefore affect future financial results. The effects would be recognized in profit or loss, primarily through taxation.

The Company recognizes the deferred tax benefit related to deferred tax assets to the amount that is probable to be realized. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred tax assets.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventory includes cost of purchase (purchase price, import duties, transport, handling, and other costs directly attributable to the acquisition of inventories), cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions are made in profit or loss of the current period on any difference between book value and net realizable value.

Property and equipment

The Company provides for depreciation expense on property and equipment at rates designed to amortize the cost of individual items and their material components over their estimated useful lives. Management makes estimates of future useful life based on patterns of benefit consumption and impairments based on past experience and market conditions. Impairment losses and depreciation expenses are presented in profit or loss of the current period.

Licences

The Company amortizes licences over their estimated useful lives. Management makes estimates of future useful life based on patterns of benefit consumption, terms of licence agreements, and impairments based on past experience and market conditions. Impairment losses and depreciation expenses are presented in profit or loss of the current period.

Royalties

The Company has a royalty financial obligation liability. The obligation is based on the present value of management's best estimate for eventual repayment which is based on estimated future sales. Changes in the sales estimates could significantly affect the value of the obligation at each reporting date. The effects are recognized in profit or loss in the current period.

When funding from royalty agreements is received, management is required to recognize a liability initially at fair value. To estimate the fair value of the obligation, the Company makes estimates of future cash flows and discounts those cash flows at an estimated prevailing market rate of interest for a similar instrument. Management updates the estimated future cash flows required under the royalty agreements at each reporting date to assess whether the value of obligation should be adjusted. The effects of any change in the obligation are recognized in profit or loss in the current period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENTS

The fair value of share-based payments is determined using the Black Scholes option pricing model based on estimated fair values at the date of grant. The Black Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the award. Changes in these assumptions can significantly affect the fair value estimate. For more information see note 11.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, demand deposits, and all highly liquid short-term investments with original maturities of three months or less.

E) REVENUE RECOGNITION

Revenues are measured at the fair value of consideration received or receivable. Revenue is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, the costs incurred or to be incurred can be measured reliably, and the Company maintains no continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

F) INVENTORIES

Inventories are valued at the lower of cost and net realizable value.

Costs of inventory include costs of purchase, costs of conversion, and any other costs incurred in bringing the inventories to their present location and condition. Costs of conversion include direct costs (materials and labor) and indirect costs (fixed and variable production overheads). Fixed overheads are allocated based on normal capacity. Raw materials are assigned costs by using a first-in-first-out cost formula and work-in-progress, and finished goods are assigned costs by using a weighted average cost formula.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

G) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Depreciation methods and rates are calculated as follows:

Manufacturing equipment	10 years straight-line
Office equipment	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	over the term of the lease

Cost for property and equipment includes the purchase price, import duties, non-refundable taxes, and any other costs directly attributable to bringing the asset into the location and condition to be capable of operating. Significant parts of an item of property and equipment with different useful lives are recognized and depreciated separately. Depreciation commences when the asset is available for use. The asset's residual values, useful lives, and method of depreciation are reviewed at each financial year end and adjustments are accounted for prospectively if appropriate. An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of an asset is included in profit or loss in the period the asset is derecognized.

H) BORROWING COSTS

Borrowing costs are capitalized when such costs are directly attributable to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to prepare for its intended use. All other borrowing costs are recognized as an expense in the period in which they are incurred.

I) IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of property and equipment and intangible assets with a finite life are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purpose of measuring recoverable cash flows, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or CGUs). If such indication exists, the Company estimates the recoverable amount of the assets, which is the higher of its fair value less costs of disposal and its value in use. Value in use is estimated as the present value of future cash flows generated by this asset or CGU including eventual disposal. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and an impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimated recoverable amount and the carrying amount that would have been recorded, had no impairment loss been recognized previously. Any such recovery is recognized immediately in profit or loss.

J) LEASES

Leases are classified as finance or operating leases. A lease is classified as a finance lease if it effectively transfers substantially the entire risks and rewards incidental to ownership.

At the commencement of the lease, the Company recognizes finance leases as an asset acquisition and an assumption of an obligation in the consolidated balance sheet at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the incremental borrowing rate is used. The interest element of the lease payment is recognized as finance cost over the lease term to achieve a constant periodic rate of interest on the remaining balance of the liability. Any initial direct costs of the lessee are added to the amount recognized as an asset. The useful life and depreciation method is determined on a consistent basis with the Company's policies for property and equipment. The asset is depreciated over the shorter of the lease term and its useful life.

All other leases are accounted for as operating leases, wherein payments are expensed on a straight-line basis over the term of the lease.

K) INTANGIBLE ASSETS

Licences

Licences are recorded at cost and are amortized straight-line over the life of the licence.

Research and product development expenditures

Research costs are expensed when incurred. Product development costs are also expensed when incurred unless the Company can demonstrate the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(e) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset;

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Costs are reduced by government grants and investment tax credits where applicable.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Following initial capitalization of product development expenditures, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses. Amortization commences when product development is completed and the asset is available for use. It is amortized over the period of expected future economic benefit. The expected lives of assets are reviewed on an annual basis and if necessary, changes in useful lives are accounted for prospectively.

L) TRADE RECEIVABLES

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss within operating costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating costs in profit or loss.

M) FOREIGN CURRENCY TRANSACTIONS

The Canadian dollar is the functional and presentation currency of the Company and each of the Company's subsidiaries.

Foreign currency monetary assets and liabilities of the Company and its subsidiaries are translated using the period end closing rate and non-monetary assets and liabilities, measured at historic cost, are translated at the rate of exchange at the date of the transaction. Foreign currency transactions are translated at the spot exchange rate which is in effect at the date of the transaction. Foreign currency gains or losses arising on translation are included in other operating income (loss) in profit or loss.

N) INCOME TAXES

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case the tax expense is also recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates and laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. Changes to these balances, including changes due to changes in income tax rates, are recognized in profit or loss in the period in which they occur.

Deferred tax assets are recognized to the extent future recovery is probable. Deferred tax assets are reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

O) GOVERNMENT ASSISTANCE

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants are recognized as an offset to expenses over the periods in which the Company recognizes expenses which the grants are intended to compensate. Government grants related to assets are recognized as cost reduction of the assets and reduce depreciation over the expected useful life of the related assets.

P) INVESTMENT TAX CREDITS

Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided it is probable that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

Q) INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per common share is computed by dividing the income (loss) by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if the Company's convertible securities and convertible debentures were converted to common shares. Diluted income (loss) per common share is calculated by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effect of all dilutive potential common shares. When the Company is in a net loss position, the conversion of convertible securities is considered to be anti-dilutive.

R) SHARE-BASED PAYMENTS

The Company issues equity-settled share-based awards to eligible employees, directors, officers, and consultants under stock option plans that can vest over periods ranging from 2 years to 10 years and have a maximum term of ten years. Share-based payments are accounted for using the fair value method, whereby compensation expense related to these programs is recorded in profit or loss with a corresponding increase to contributed surplus. The fair value of options granted is determined using Black-Scholes option pricing model at the grant date and expensed over the vesting period. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates estimated forfeitures will change. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

S) EMPLOYEE FUTURE BENEFITS

The Company accrues its obligations under an employee defined benefit pension plan and related costs. The cost of retirement benefits earned by employees is determined by reference to employee's salary and management's best estimate of expected retirement ages of employees. The liability recognized in the balance sheet is the present value of the defined benefit obligation. The discount rate used is based on the interest rates for high quality corporate bonds that have terms to maturity approximating the terms of the obligation. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur. The Company recognizes actuarial gains and losses in other comprehensive income or loss.

T) PROVISIONS

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

U) TRADE AND OTHER PAYABLES

Trade and other payables, including accruals, are recorded when the Company is required to make future payments as a result of purchases of assets or services. Trade and other payables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest rate method.

V) FINANCIAL INSTRUMENTS

All financial instruments are measured at initial recognition at fair value plus any transaction costs that are directly attributable to the acquisition of the financial instruments except for transaction costs related to financial instruments classified as at fair value through profit or loss ("FVTPL") which are expensed as incurred. The Company has designated its financial instruments as follows:

i) Cash and cash equivalents and trade and other receivables have been classified as loans and receivables and are measured at amortized cost using the effective interest method, less any allowance for uncollectability. The Company recognizes purchase or sale of financial assets using trade date accounting.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Accounts payable and accrued liabilities, long-term debt, royalties interest payable, royalty financial liability, and the CAAP loan are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

W) CONSOLIDATED STATEMENT OF CASH FLOWS

The Company prepares its consolidated statement of cash flows using the indirect method.

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" (2014)

The IASB recently released IFRS 9 "Financial instruments" (2014), representing the completion of its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard introduces extensive changes to IAS 39's guidance 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 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 IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

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

4. INVENTORIES

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

	December 31, 2014 $	December 31, 2013 $
Raw materials	**289,784**	224,671
Work in progress	**43,867**	–
Finished goods	**345,614**	98,911
	679,265	323,582

Inventories expensed to cost of goods sold during the year ended December 31, 2014 are $4,046,206 (December 31, 2013 – $3,360,544).

During the year ended December 31, 2014, the Company decreased the carrying value of inventory by $26,671 (2013 – $28,447) due to estimated realizable values from certain finished goods being lower than cost and included this amount in cost of goods sold.

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 20 (e)).

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 $2,962 has been included in general and administration for the year ended December 31, 2014 (December 31, 2013 – $2,963) (see note 20(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 year ended December 31, 2014 (December 31, 2013 – $4,500) (see note 20(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 Licences	$
Balance – December 31, 2012	89,439
Additions	–
Balance – December 31, 2013	89,439
Additions	–
Write-off	(45,000)
Balance – December 31, 2014	44,439
Accumulated amortization	
Balance – December 31, 2012	15,722
Amortization	7,463
Balance – December 31, 2013	23,185
Amortization	4,087
Write-off	(19,125)
Balance – December 31, 2014	8,147
Net book value	
Balance – December 31, 2014	36,292
Balance – December 31, 2013	66,254

6. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
December 31, 2012	24,370	3,127,569	80,034	294,902	120,364	3,647,239
Additions	3,569	651,805	2,066	5,199	1,640,714	2,303,353
Disposal	–	(31,045)	–	–	–	(31,045)
Cost reduced by grant	–	(103,284)	–	–	(1,483,777)	(1,587,061)
December 31, 2013	27,939	3,645,045	82,100	300,101	277,301	4,332,486
Additions	1,982,459	50,409	232,190	113,165	2,321,303	4,699,526
Disposal	–	(10,209)	(8,844)	(12,970)	–	(32,023)
Cost reduced by grant	(294,623)	–	–	–	–	(294,623)
December 31, 2014	1,715,775	3,685,245	305,446	400,296	2,598,604	8,705,366
Accumulated Depreciation						
December 31, 2012	–	1,800,959	65,534	226,037	120,364	2,212,894
Depreciation	–	260,253	3,176	21,744	–	285,173
Disposal		(18,605)	–	–	–	(18,605)
December 31, 2013	–	2,042,607	68,710	247,781	120,364	2,479,462
Depreciation	–	237,768	13,570	25,473	15,485	292,296
Disposal		(6,721)	(8,675)	(12,947)	–	(28,343)
December 31, 2014	–	2,273,654	73,605	260,307	135,849	2,743,415
Carrying value						
December 31, 2014	1,715,775	1,411,591	231,841	139,989	2,462,755	5,961,951
December 31, 2013	27,939	1,602,438	13,390	52,320	156,937	1,853,024

Depreciation expense is allocated to the following expense categories:

	Cost of goods sold $	Inventory $	General and administration $	Total $
Year Ended December 31, 2014	186,070	23,984	82,242	292,296
Year Ended December 31, 2013	225,214	6,273	53,686	285,173

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. 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 $41,169 (2013 – $nil) and capitalized employee benefits of $182,316 (2013 – $nil) arising directly from the construction of the new manufacturing equipment and production process. Included in leasehold improvement additions are capitalized borrowing costs of $38,491 (2013 – $nil) and capitalized employee benefits of $55,324 (2013 – $nil) arising directly from the construction of the new manufacturing facility. The borrowing costs have been capitalized at the rates of the specific borrowings of 3.91% and 2.85%.

7. LONG-TERM DEBT

	December 31, 2014 $	December 31, 2013 $
Loan payable secured by a general security agreement due January, 2018 (a).	**582,693**	758,033
Loan payable secured by certain intellectual property due January, 2019 (b).	**1,161,166**	1,465,500
Loan payable secured by a general security agreement due April, 2019 (c).	**1,404,672**	579,352
Loan payable secured by a forklift due June, 2018 (d).	**43,477**	–
Transaction costs	**(62,337)**	(80,869)
	3,129,671	2,722,016
Less current portion	**768,345**	499,718
	2,361,326	2,222,298

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

Year Ended December 31, 2014	45,548
Year Ended December 31, 2013	35,455

(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 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 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 is due January 2, 2019. The loan, for 1 million Euro, is repayable over 5 years at an interest rate of 2.85%. At December 31, 2014, the loan balance was $1,161,166 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 December 31, 2014, the monthly payment is $25,131 in Canadian dollars.

(c) During the year ended December 31, 2013, the Company entered into a new loan 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%. At December 31, 2014, $1,600,000 was drawn on this loan (December 31, 2013, $579,352). 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 ended 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.

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

8. ROYALTIES PAYABLE

a) In the year ended December 31, 2004, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling $250,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2014, $225,000 (2013 – $225,000) of this commitment has been received and the remaining $25,000 was decommitted. CTI is obligated to pay a royalty (to a maximum of two times the financial assistance received) on sales generated from CeaProve® on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. No royalties have been paid or accrued during the current or prior years. CTI has repaid at December 31, 2014 $nil (2013 – $nil) of this obligation. Upon completion of the repayment of the financial assistance received, CTI will also be required to repay $19,750 advanced during the year ended December 31, 2002. The portion of this obligation paid or accrued as at December 31, 2014 was $nil (2013 – $nil). The potential amount payable per agreement as at December 31, 2014 is $469,750 (2013 – $469,750) (see note 8(e)).

b) On December 28, 2005, the Company sold a 2.285% royalty interest in the Company's future sales and licensing of certain active ingredients, animal health, and CeaProve® products for $457,000. The maximum royalties payable are two times the amount invested or $914,000. The portion of this obligation paid or accrued as at December 31, 2014 was $914,000 (2013 – $789,345). During the year, the Company repaid $113,211 through cash payments (2013 – $116,343). The balance of royalties payable under this offering as at December 31, 2014 totaled $43,075, the cheques for which were released just after year-end, (2013 – $31,631). The potential amount payable per agreement as at December 31, 2014 is $nil (2013 – $124,655) (see note 8(e)). The balance outstanding was set up as a royalty financial liability which results in a discounted liability of $nil (2013 – $106,692).

	Year Ended December 31, 2014 $	Year Ended December 31, 2013 $
Opening amount of royalties interest payable	**31,631**	25,037
Royalty expense recognized	**124,655**	122,937
Amount paid during the year	**(113,211)**	(116,343)
Closing amount of royalties interest payable	**43,075**	31,631
Opening amount of royalty financial liability	**106,692**	205,309
Principal repayment of the discounted amount during the year	**(106,692)**	(98,617)
Closing amount of royalty financial liability	**–**	106,692
Less current portion	**–**	106,692
	–	–
Interest expense paid during the year	**17,959**	24,320

c) In the year ended December 31, 2005, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. (CVP), received a commitment for financial assistance totaling $362,250 for product innovation development in the area of Veterinary Therapeutics and Active Ingredients. As at December 31, 2014, $362,250 (2013 – $362,250) of the commitment has been received. The Company and CVP are obligated to pay a 2.5% royalty to a maximum of $75,000 per quarter (to a maximum of two times the financial assistance received or $724,500) on sales generated from products developed using these funds. The portion of the obligation accrued and paid at December 31, 2014 was $1,224 (2013 – $940). The potential amount payable per agreement as at December 31, 2014 is $723,276 (2013 – $723,560) (see note 8(e)).

d) In the year ended December 31, 2005, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling $800,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31,

2014, $510,000 of this commitment has been received (2013 – $510,000) and the remaining $290,000 has been decommitted. CTI is obligated to pay a royalty (to a maximum of one and a half times the financial assistance received or $765,000) on sales of CeaProve® on the following basis: 0% of net sales and net sub-licensing revenues earned until royalty payments have been fully satisfied under the investment agreement in note 8(a), and 5% thereafter until repaid to a maximum of $125,000 per quarter. No royalties have been incurred during the current year. The portion of this obligation paid or accrued as at December 31, 2014 was $nil (2013 – $nil). The potential amount payable per agreement as at December 31, 2014 is $765,000 (2013- $765,000) (see note 8(e)).

e) Potential royalties payable as at December 31, 2014 and 2013:

Notes	Year of agreement	Potential amount payable at December 31, 2014	Potential amount payable at December 31, 2013
8 (a)	2004	469,750	469,750
8 (b)	2005	–	124,655
8 (c)	2005	723,276	723,560
8 (d)	2005	765,000	765,000
Total		**1,958,026**	2,082,965

As the funding received in items a), c) and d) above is contingently repayable, it constitutes a liability that is recognized initially at fair value and subsequently at amortized cost using the effective interest method. As the initial fair value was estimated to be negligible, funding received was recorded as revenue and no liability was recorded. Management updates the estimate of future cash flows required under these agreements at each reporting date to assess whether the expected repayments constitute a significant liability. When a liability needs to be recognized, a fair value adjustment is required.

9. DEFERRED REVENUE

During the year ended December 31, 2014, the Company received $89,100 from Alberta Innovates Bio Solutions (AI-Bio Solutions) under a non-repayable grant agreement to fund a research project. During the year, the Company has expended $22,117. The balance of the grant is presented as deferred revenue.

Deferred revenue also consists of $95,296 (2013 – $361,309) for prepaid sales orders from a customer.

10. EMPLOYEE FUTURE BENEFITS OBLIGATION

The Company has an unfunded, non-registered, non-indexed defined benefit pension 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 to settle the obligation 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 December 31, 2014 was $127,009 and no further expenses under current service costs will be incurred as a result of this amendment.

Accrued benefit obligation	**Year Ended December 31, 2014 $**	Year Ended December 31, 2013 $
Unfunded balance, beginning of year	**272,982**	217,219
Current service cost	–	18,301
Loss on curtailment (or past service costs)	–	14,815
Interest costs on accrued benefit obligation	**4,027**	5,731
Actuarial losses, net of $nil tax	–	16,916
Benefit repayment	**(150,000)**	–
	127,009	272,982
Less current portion	**127,009**	145,973
	–	127,009

Elements of defined benefit costs recognized in the year	**Year Ended December 31, 2014 $**	Year Ended December 31, 2013 $
Current service cost	–	18,301
Loss on settlement	–	14,815
Interest cost on accrued benefit obligation	**4,027**	5,731
	4,027	38,847

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

11. 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

	Year Ended December 31, 2014		Year Ended December 31, 2013	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of the year	**60,278,948**	**6,315,858**	60,278,948	6,315,858
Stock options exercised	**1,145,000**	**250,069**	–	–
Balance at end of the year	**61,423,948**	**6,565,927**	60,278,948	6,315,858

C. CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	2014 $	2013 $
Balance at beginning of year	**503,829**	431,792
Share-based payments (note11(d))	**111,995**	72,037
Stock options exercised	**(108,319)**	–
	507,505	503,829

D. STOCK OPTIONS AND SHARE-BASED PAYMENTS

The Company has granted stock options to eligible employees, directors, officers, and consultants under stock option plans that vest over two-year periods 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 year ended December 31, 2014, the Company granted 1,330,000 (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 2.18% (2013 – 1.62%), the weighted average expected volatility was 115% (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 $0.13 (2013 – $0.06), the weighted average exercise price was $0.13 (2013 – $0.10), and the expected dividends were nil (2013 – nil). The weighted average grant date fair value of options granted in the year ended December 31, 2014 was $0.13 (2013 – $0.05) per option.

The share-based payments expense recorded during the current year relating to options granted in 2014, 2013, and 2012 was $111,995 (during 2013 relating to options granted in 2013, 2012, and 2011 – $72,037).

11. SHARE CAPITAL (CONTINUED)

A summary of the status of the Company's stock options at December 31, 2014 and 2013 and changes during the years ended on those dates is as follows:

	2014		2013	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of year	**3,145,000**	**0.11**	2,940,000	0.13
Granted	**1,330,000**	**0.13**	1,400,000	0.10
Exercised	**(1,145,000)**	**0.12**	–	–
Expired	**–**	**–**	(810,000)	0.15
Forfeited	**(210,000)**	**0.10**	(385,000)	0.12
Outstanding at end of year	**3,120,000**	**0.12**	3,145,000	0.11
Exercisable at end of year	**1,946,668**	**0.11**	2,201,667	0.12

E. STOCK OPTIONS OUTSTANDING ARE AS FOLLOWS:

Fair Value $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	**December 31, 2014 Number of Options**	December 31, 2013 Number of Options
0.37	0.27	2024	9.9	**150,000**	
0.13	0.14	2024	9.4	**250,000**	–
0.08	0.10	2024	9.0	**810,000**	–
0.05	0.10	2023	8.0	**1,065,000**	1,265,000
0.09	0.10	2022	7.5	**300,000**	300,000
0.11	0.15	2016	1.5	**275,000**	325,000
0.06	0.10	2015	0.7	**270,000**	430,000
0.10	0.13	2014	–	**–**	825,000
			7.2	**3,120,000**	3,145,000

12. CAAP LOAN

The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable 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 resulting in amended 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 December 31, 2014 respectively. All amounts claimed under the program are repayable interest free over eight years beginning in 2014.

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 which was 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 balance of repayable contribution is derived as follows:

Year Ended December 31,	**2014** **$**	2013 $
Opening balance	**363,471**	220,978
Funding received or receivable	**–**	197,495
Grant revenue recognized	**–**	(97,072)
Repayment	**(83,884)**	–
Accretion of CAAP loan	**58,430**	42,070
	338,017	363,471
Less current portion	**72,942**	72,942
	265,075	290,529

The principal repayment required for amounts received or receivable from inception to December 31, 2013 is $83,883 annually from 2014 through 2021. The first repayment of $83,884 was invoiced to the Company on December 31, 2014 and therefore the Company reclassified this payment outstanding to accounts payable and accrued liabilities.

13. SALES

During the year ended December 31, 2014, the Company had export sales to two customers of the Company's products in the aggregate amount of $8,206,953 (92%) (2013 – to two customers in the amount of $6,042,428 (93%)). The Company is therefore dependent on those customers to maintain and expand the volume of product sales.

14. RELATED PARTY TRANSACTIONS

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

Year Ended December 31,	**2014** **$**	2013 $
Royalties earned by employees and directors	**25,666**	24,889
Amounts payable to employees and directors included in royalties payable	**8,719**	5,967
Key management salaries, short-term benefits, consulting fees, and director fees	**519,053**	671,838
Key management personnel share-based payments	**56,806**	40,754
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.

15. OTHER OPERATING LOSS (INCOME)

Year Ended December 31,	2014 $	2013 $
Foreign exchange (income) loss	**(26,514)**	22,803
Loss on write-off of licence	**25,875**	–
Loss on disposal of property and equipment	**3,680**	12,440
Other income	**(2,621)**	(4,103)
Plant relocation costs	**405,502**	240,079
	405,922	271,219

16. FINANCE COSTS

Year Ended December 31,	2014 $	2013 $
Interest on royalty financial liability	**17,959**	24,678
Interest on long-term debt	**45,548**	35,455
Transaction costs	**18,532**	1,960
Royalties to University of Guelph & AAFC	**47,500**	22,500
Accretion of CAAP loan	**58,430**	42,070
	187,969	126,663

17. INCOME TAXES

A) INCOME TAX EXPENSE

	December 31, 2014 $	December 31, 2013 $
Components of income tax expenses are:		
Current tax expense	**–**	–
Deferred tax expense:		
Origination and reversal of temporary differences	**619,435**	404,459
Change in unrecognized deductible temporary differences	**(544,273)**	(186,446)
Prior period adjustments	**(75,162)**	(218,013)
Income tax expense (recovery)	**–**	–

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before tax. These differences result from the following:

	December 31, 2014 $	December 31, 2013 $
Income before tax	**1,593,795**	175,808
Statutory income tax rate	**25.00%**	25.00%
Expected income tax	**398,449**	43,952
Increase (decrease) resulting from:		
Non-deductible items	**30,177**	20,137
Change in unrecognized assets	**(353,464)**	153,924
Prior period tax adjustments	**(75,162)**	(218,013)
Income tax expense (recovery)	**–**	–

B) RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

	December 31, 2014 $	December 31, 2013 $
Deferred tax assets are attributable to the following:		
SRED pool, net of ITC's	**187,142**	156,157
Deferred tax assets	**187,142**	156,157
Offset by deferred tax liabilities	**(187,142)**	(156,157)
Net deferred tax asset	**–**	–
Deferred tax liabilities are attributable to the following:		
PP&E	**(121,686)**	(75,603)
Finance fees	**(3,160)**	(3,651)
CAAP loan	**(62,296)**	(76,903)
Deferred tax liabilities	**(187,142)**	(156,157)
Offset by deferred tax assets	**187,142**	156,157
Net deferred tax liability	**–**	–

C) UNRECOGNIZED DEFERRED TAX ASSETS

	December 31, 2014 $	December 31, 2013 $
Deferred tax assets have not been recognized in respect of the following items:		
Deductible temporary differences	**1,329,539**	1,284,347
Tax losses	**3,740,504**	4,139,160
	5,070,043	5,423,507

17. INCOME TAXES (CONTINUED)

The tax losses expire between 2015 and 2034. Deferred tax assets have not been recognized in repsect of these items as it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

18. 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:

Year Ended December 31,	**2014** **$**	2013 $
United States	**7,425,861**	5,228,790
Germany	**1,286,887**	1,072,936
Other	**176,271**	202,897
Canada	**1,237**	19,439
	8,890,256	6,524,062

19. EMPLOYEE BENEFITS

Year Ended December 31,	**2014** **$**	2013 $
Employee benefits	**2,498,791**	2,312,480

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

20. 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, 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 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 year ended December 31, 2014, the Company decided to terminate the licence agreement and no further royalties will be payable.

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

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

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

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

e) 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 on 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.

21. OPERATING LEASE

The Company incurred $731,379 in 2014 (2013 – $508,626) under rental operating leases. These amounts were recorded as follows: general and administration expenses of $115,543 (2013 – $90,120), research and development expenses of $831 (2013 – $nil), cost of goods sold of $234,343 (2013 – $267,103), and other operating loss of $380,662 (2013 – $151,403).

The Company is committed to future annual payments under operating leases for manufacturing facilities, office space and warehouse starting April 1, 2013. Total lease commitments exclusive of operating costs from January 1, 2015 to March 31, 2025 are disclosed in the table below:

	0 - 1 year $	2 - 5 years $	6 - 11 years $	Total $
New lease for plant	201,870	842,807	1,206,173	2,250,850
Warehouse	58,500	63,375	–	121,875
Total	260,370	906,182	1,206,173	2,372,725

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

	December 31, 2014		December 31, 2013	
	Book value $	**Fair value $**	Book value $	Fair value $
Loans and receivables:				
Cash and cash equivalents	**272,845**	**272,845**	1,953,019	1,953,019
Trade and other receivables	**634,471**	**634,471**	530,272	530,272
Other financial liabilities:				
Accounts payable and accrued liabilities	**1,791,145**	**1,791,145**	994,408	994,408
Long-term debt	**3,129,671**	**3,129,671**	2,722,016	2,722,016
CAAP loan	**338,017**	**338,017**	363,471	363,471
Royalties interest payable	**43,075**	**43,075**	31,631	31,631
Royalty financial liability	**–**	**–**	106,692	106,692

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 two customers at December 31, 2014 (2013 – 94% from two customers) and all trade receivables at December 31, 2014 and 2013 are current. These main customers are considered to have good credit quality and historically have a high quality credit rating.

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

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $272,845 at December 31, 2014 (2013 – $1,953,019) 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.

22. FINANCIAL INSTRUMENTS (CONTINUED)

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

	within 1 year $	1 to 3 years $	3 to 5 years $	over 5 years $	Total $
Accounts payable and accrued liabilities	1,791,145	–	–	–	1,791,145
Long-term debt obligations	867,877	1,735,755	820,010	–	3,423,642
Repayable CAAP funding	83,883	167,766	167,766	167,766	587,181
Total	2,742,905	1,903,521	987,776	167,766	5,801,968

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	365,092	3,651	(3,651)
Financial liabilities			
Accounts payable and accrued liabilities	392,649	(3,926)	3,926
Total (decrease) increase		(275)	275

	CARRYING AMOUNT (EURO)	FOREIGN EXCHANGE RISK (EURO)	
		– 1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial liabilities			
Long-term debt	827,159	(8,272)	8,272
Total (decrease) increase		(8,272)	8,272

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 December 31, 2014.

2. Interest rate risk

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

23. 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 year ended December 31, 2014.

24. GOVERNMENT ASSISTANCE

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 year ended December 31, 2014, the Company received $nil (2013 – $9,166) which was recorded as a reduction of research and product development expenses. This agreement was completed during the year ended December 31, 2013.

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 current year, the Company received $18,333 (2013 – $62,000) which was recorded as a reduction of research and project development expenses. This agreement has been completed at December 31, 2014.

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 year ended December 31, 2014 (2013 – $5,000). This agreement was completed during the year ended December 31, 2013.

d) The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the year from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to $671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended one year to September 30, 2013. All amounts claimed under the program are repayable interest free over eight years beginning in 2014. The Company received or recorded as receivable funding of $671,068 to December 31, 2013 under this program and no further funds are expected (see note 12).

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, and received $690,000 in 2013. The amount of $nil (2013 – $1,398,777) was recorded as a reduction of capitalized expenditures. 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 year ended December 31, 2014, the Company received or recorded as receivable the amount of $nil (December 31, 2013 – $302,909). This agreement was completed during the year ended December 31, 2013.

24. GOVERNMENT ASSISTANCE (CONTINUED)

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 year ended December 31, 2014, the Company received or recorded as receivable the amount of $300,254, (December 31, 2013 -$192,345) of which $294,623 was recorded as a reduction of capitalized expenditures. The Company received an additional $79,640 in 2015 and the project was completed.

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

i) 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 year ended December 31, 2014, the Company recorded $20,242 as a receivable. The Company received an additional $8,443 in 2015 and the project was completed.

25. INCOME PER COMMON SHARE

Year Ended December 31,	**2014**	2013
Net income for the year for basic and diluted earnings per share calculation	**$1,593,795**	$175,808
Weighted average number of shares outstanding	**60,901,619**	60,278,948
Effect of dilutive stock options	**1,632,028**	–
Diluted weighted average number of common shares	**62,533,647**	60,278,948
Income per share – basic	**$0.03**	$0.00
Income per share – diluted	**$0.03**	$0.00

For the year ended December 31, 2014, 316,666 outstanding stock options have not been included in the diluted income per share calculation because either 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 year.

For the year ended December 31, 2013, the Company's 3,145,000 stock options outstanding have not been included in the diluted income per share calculation because the options' exercise prices were greater than the average market price of the common shares during the year.

26. SUBSEQUENT EVENTS

a) Subsequent to the year end, 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.

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

c) Subsequent to the year end, the Company issued 1,040,000 stock options to officers, directors, and employees of the Company. The stock options have a weighted average exercise price of $0.63 per common share and expire in 10 years.

d) Subsequent to the year end, 208,333 options were exercised for a weighted average price of $0.10 per common share and gross proceeds of $21,833.

Investor Information – April 27, 2015

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Gilles Gagnon, President & CEO
Dr. Ulrich Kosciessa
Dr. William W. Li
Donald Oborowsky
John Zupancic

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President & CEO

Branko Jankovic, CA
Chief Financial Officer
Vice President, Finance

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CHANGE OF ADDRESS
Registered Shareholders should notify the Company's Transfer Agent and Registrar at the address set out above.

Beneficial Owners should contact their respective brokerage firm to give notice of change of address.

FINANCIAL CALENDAR
The Company's year-end is December 31. Quarterly reports are mailed in May, August, and November.

ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS
The annual general and special meeting of shareholders will be held on:

June 3, 2015 at 10:30 am MDT

Location:
Delta Edmonton South Hotel
and Conference Centre – Crystal Gallery
4404 Gateway Boulevard
Edmonton, Alberta
Canada T6H 5C2

EQUAL OPPORTUNITY EMPLOYER
Ceapro Inc. is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age, or disability.

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