

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2015**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: **000-54748**

XRPRO SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-0982060

(I.R.S. Employer
Identification No.)

One Kendall Square, Suite B2002

Cambridge, Massachusetts, 02139

(Address of principal executive offices) (Zip Code)

(617) 631-8825

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock outstanding as of August 14, 2015 was 6,481,457.

XRPRO SCIENCES, INC.
FORM 10-Q
TABLE OF CONTENTS

| | Page |
|--|-------------|
| PART I.—FINANCIAL INFORMATION | |
| Item 1. Financial Statements | F-1 |
| Condensed Consolidated Balance Sheets as of June 30, 2015 (Unaudited) and December 31, 2014 | F-1 |
| Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2015 and 2014, respectively (Unaudited) | F-2 |
| Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014, respectively (Unaudited) | F-3 |
| Notes to the Unaudited Condensed Consolidated Financial Statements | F-4 |
| Item 2. Management’s Discussion and Analysis of Financial Information and Results of Operations | 1 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risks | 13 |
| Item 4. Controls and Procedures | 13 |
| PART II—OTHER INFORMATION | |
| Item 1. Legal Proceedings | 14 |
| Item 1A. Risk Factors | 16 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 28 |
| Item 3. Defaults Upon Senior Securities | 28 |
| Item 4. Mine Safety Disclosures | 28 |
| Item 5. Other Information | 28 |
| Item 6. Exhibits | 29 |
| SIGNATURE | 30 |
| GLOSSARY | |

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

**XRPRO SCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

| | June 30, 2015 | December 31, 2014 |
|---|----------------------------|------------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 7,525,635 | \$ 6,472,393 |
| Accounts receivable, net | 82,328 | 103,869 |
| Prepaid expenses and other current assets | 299,958 | 55,331 |
| Total current assets | <u>7,907,921</u> | <u>6,631,593</u> |
| Non-current assets: | | |
| Intangible assets, net | 465,365 | 491,207 |
| Plant and equipment, net | 468,906 | 481,651 |
| Deposits | 1,000 | 1,000 |
| Investment in certificate of deposit | 25,019 | 25,014 |
| Total non-current assets | <u>960,290</u> | <u>998,872</u> |
| TOTAL ASSETS | <u>\$ 8,868,211</u> | <u>\$ 7,630,465</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 678,499 | \$ 556,099 |
| Other payables and accrued expenses | 594,015 | 785,253 |
| Loans payable | 35,421 | 34,552 |
| Dividends payable | 24,029 | 978,048 |
| Total current liabilities | <u>1,331,964</u> | <u>2,353,952</u> |
| Non-current liabilities: | | |
| Loans payable | 124,557 | 142,502 |
| Total non-current liabilities | <u>124,557</u> | <u>142,502</u> |
| TOTAL LIABILITIES | <u>1,456,521</u> | <u>2,496,454</u> |
| Convertible Redeemable Preferred Stock | | |
| Series A Cumulative Convertible Redeemable Preferred Stock, \$0.001 par value, 400,000 shares designated, 105,000 shares issued and outstanding as of June 30, 2015 and December 31, 2014, liquidation preference is \$5.70 per share. | 133,350 | 133,350 |
| Commitments and contingencies | - | - |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$0.001 par value, 10,000,000 authorized shares, 6,600,000 shares undesignated and unissued. | - | - |
| Series B Cumulative Convertible Preferred Stock, \$0.001 par value, 3,000,000 designated shares, 0 and 2,133,947 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively, liquidation preference is \$2.50 per share. | - | 2,134 |
| Common stock, \$0.001 par value, 50,000,000 authorized shares, 6,808,457 and 3,780,847 shares issued and 6,481,457 and 3,453,847 outstanding as of June 30, 2015 and December 31, 2014, respectively.* | 6,481 | 3,453 |
| Additional paid in capital | 23,516,916 | 18,413,353 |
| Treasury stock, at cost (327,000 shares of common stock as of June 30, 2015 and December 31, 2014).* | (237) | (237) |
| Accumulated deficit | (16,244,820) | (13,418,042) |
| Total stockholders' equity | <u>7,278,340</u> | <u>5,000,661</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 8,868,211</u> | <u>\$ 7,630,465</u> |

* After giving retrospective effect to a 2 for 1 reverse stock split which became effective on March 25, 2015 after filing a certificate of amendment to the certificate of incorporation.

XRPRO SCIENCES, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|--|---|---|---|---|
| Sales | \$ 95,158 | \$ 82,662 | \$ 125,811 | \$ 336,882 |
| Cost of sales | 129,666 | 165,441 | 291,867 | 342,413 |
| Gross loss | <u>(34,508)</u> | <u>(82,779)</u> | <u>(166,056)</u> | <u>(5,531)</u> |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 1,239,031 | 794,523 | 2,490,105 | 2,028,484 |
| Depreciation | 32,823 | 27,821 | 65,049 | 54,780 |
| Amortization | 12,921 | 12,921 | 25,842 | 25,841 |
| Total operating expenses | <u>1,284,775</u> | <u>835,265</u> | <u>2,580,996</u> | <u>2,109,105</u> |
| Operating loss | (1,319,283) | (918,044) | (2,747,052) | (2,114,636) |
| Other income/(expense) | | | | |
| Other income/(expense) | (6,400) | - | (6,239) | 7,177,522 |
| Interest income | 1,562 | 26 | 3,416 | 62 |
| Interest expense | (2,042) | (3,065) | (4,206) | (9,632) |
| Change in fair value of derivative liabilities | - | (131,582) | - | (685,002) |
| Total other income/(expense) | <u>(6,880)</u> | <u>(134,621)</u> | <u>(7,029)</u> | <u>6,482,950</u> |
| Net (loss)/income | (1,326,163) | (1,052,665) | (2,754,081) | 4,368,314 |
| Preferred stock dividends | (12,042) | (155,134) | (72,697) | (305,127) |
| Net (loss)/income applicable to common stock | <u>\$ (1,338,205)</u> | <u>\$ (1,207,799)</u> | <u>\$ (2,826,778)</u> | <u>\$ 4,063,187</u> |
| Net (loss)/income per common stock: - | | | | |
| Basic | <u>\$ (0.21)</u> | <u>\$ (0.60)</u> | <u>\$ (0.47)</u> | <u>\$ 1.98</u> |
| Diluted | <u>\$ (0.21)</u> | <u>\$ (0.60)</u> | <u>\$ (0.47)</u> | <u>\$ 1.36</u> |
| Weighted average number of common stock outstanding: - | | | | |
| Basic | <u>6,464,614</u> | <u>2,019,885</u> | <u>6,061,120</u> | <u>2,048,166</u> |
| Diluted | <u>6,464,614</u> | <u>2,019,885</u> | <u>6,061,120</u> | <u>3,202,435</u> |

* After giving retrospective effect to a 2 for 1 reverse stock split which became effective on March 25, 2015 after filing a certificate of amendment to the certificate of incorporation.

See notes to the unaudited condensed consolidated financial statements

XRPRO SCIENCES, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|--|---|---|
| Cash flow from operating activities | | |
| Net (loss) income | \$ (2,754,081) | \$ 4,368,314 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Depreciation | 65,049 | 54,780 |
| Amortization | 25,842 | 25,841 |
| Loss (gain) on disposal/scrapping of plant and equipment | 6,239 | (462) |
| Stock based compensation charge | 293,425 | 247,263 |
| Increase in fair value of derivative financial liability | - | 685,002 |
| Gain on cancellation of shares in legal settlement | - | (177,522) |
| Increase in legal settlement accrual | 85,000 | - |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 21,541 | 57,437 |
| Increase in prepaid expenses and deposits | (244,627) | (63,832) |
| Increase (decrease) in accounts payable | 122,400 | (1,097,974) |
| Increase (decrease) in other payables and accrued expenses | 34,349 | (140,434) |
| Net cash (used in) provided by operating activities | (2,344,863) | 3,958,413 |
| Cash flow from investing activities | | |
| Purchase of plant and equipment | (59,478) | (46,106) |
| Proceeds from sale of equipment | 934 | 2,750 |
| Investment in deposits | (5) | (1,000) |
| Net cash used in investing activities | (58,549) | (44,356) |
| Cash flow from financing activities | | |
| Repayment of term loan | - | (247,201) |
| Repayment of Los Alamos County loan | (17,038) | (16,208) |
| Proceeds from Common stock units issued | 3,836,133 | - |
| Share issue expenses | (314,541) | - |
| Proceeds from warrants exercised | 400 | - |
| Series A Preferred Stock dividends paid | (48,300) | - |
| Net cash provided by (used in) financing activities | 3,456,654 | (263,409) |
| Net increase in cash | 1,053,242 | 3,650,648 |
| Cash at the beginning of the period | 6,472,393 | 519,733 |
| Cash at the end of the period | \$ 7,525,635 | \$ 4,170,381 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for: | | |
| Interest | \$ 4,244 | \$ 10,314 |
| Income taxes | \$ - | \$ - |
| Non-cash investing and financing activities: | | |
| Common stock issued in exchange for Series B Preferred stock | \$ 2,134 | \$ - |
| Common stock issued in lieu of series B Preferred stock dividends | \$ 978,417 | \$ - |
| Common shares issued to partially settle liability | \$ 310,625 | \$ - |
| Accrued Series A Preferred stock dividends | \$ 23,952 | \$ 23,951 |
| Accrued Series B Preferred stock dividends | \$ 48,745 | \$ 281,176 |

See notes to the unaudited condensed consolidated financial statements

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

XRpro Sciences (formerly known as Caldera Pharmaceuticals, Inc.) (“the Company”, “we”, “us”, “our”) is a Delaware corporation. The principal office is located in Cambridge, Massachusetts. The Company was incorporated in November 2003.

The Company uses proprietary x-ray fluorescence technology called XRpro® to deliver ion channel screening, ion channel kinetics and custom screening services to our customers. Our proprietary technology detects and quantitatively analyzes the x-ray signature of each element with an atomic number greater than 12; we combine the flexibility of the analysis with patented sample processing to address a wide range of ion channel and other biological targets.

On July 1, 2015, the Company consummated its purchase of certain assets of Icagen Inc., a wholly owned subsidiary of Pfizer Inc. (“Pfizer”) under the terms of an asset purchase and collaboration agreement that the Company entered into on June 26, 2015, pursuant to which the Company acquired certain assets of Icagen (including certain cell lines, office equipment, servers, biology instruments, benchtops and the Icagen name), assumed certain liabilities of Icagen and agreed to continue the employment of several employees of Icagen for at least two years. The Company agreed to pay: (i) an upfront cash purchase price of \$500,000, of which \$125,000 was paid at closing date, and \$375,000 is to be paid in three equal installments of \$125,000, on September 1, 2015, December 1, 2015 and March 1, 2016; (ii) a cash payment of \$500,000 on the second anniversary of the closing provided that prior to such date the MSSA (as defined below) has generated at least \$4,000,000 in revenue; and (iii) beginning in 2017, a quarterly earn out payment (the “Earn Out Payment”) of 10% of revenue earned during the quarter up to a maximum aggregate payment of \$10,000,000.

The Company also entered into a Master Scientific Services Agreement with Pfizer (the “MSSA”), the execution of which was a condition to closing under the APA. In accordance with the terms of the MSSA, the Company agreed to perform ion channel screening and other contract research for Pfizer, including but not limited to, on demand assay development, modification and optimization, compound screening, ion channel screening, reagent and cell line generation, biology platform development.

The Company has generated the majority of its revenues to date through Government research contracts and Government grants utilizing its proprietary x-ray fluorescence technology.

2. ACCOUNTING POLICIES AND ESTIMATES

General

The following (a) consolidated balance sheets as of June 30, 2015 (unaudited) and December 31, 2014, which have been derived from audited consolidated financial statements, and (b) the unaudited interim statements of operations and cash flows of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and six months ended June 30, 2015 are not necessarily indicative of results that may be expected for the year ending December 31, 2015. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2014 included in the Company’s Form 10-K, filed with the Securities and Exchange Commission (“SEC”).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”).

In the opinion of management, all adjustments necessary to fairly present the results for the interim periods presented have been made. All adjustments made are of a normal and recurring nature and no non-recurring adjustments have been made in the presentation of these interim financial statements.

All amounts referred to in the notes to the unaudited condensed consolidated financial statements are in United States Dollars (\$) unless stated otherwise.

Consolidation

The unaudited condensed consolidated financial statements include the financial statements of the Company and its subsidiaries in which it has a majority voting interest. Investments in affiliates are accounted for under the cost method of accounting, where appropriate. All significant inter-company accounts and transactions have been eliminated in the condensed consolidated financial statements. The entities included in these condensed consolidated financial statements are as follows:

XRpro Sciences, Inc. - Parent Company
XRpro Corp. – Wholly owned subsidiary
Caldera Discovery, Inc – Wholly owned subsidiary (formed on March 27, 2015)

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES AND ESTIMATES (continued)

Estimates

The preparation of these unaudited condensed consolidated financial statements in accordance with US GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our estimates, including those related to bad debts and recovery of long-lived assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Any future changes to these estimates and assumptions could cause a material change to our reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the financial statements. Significant estimates include the allowance for doubtful accounts, the useful life of plant and equipment and intangible assets, and assumptions used in assessing impairment of long-term assets and the assumptions used in determining percentage of completion on our long-term contracts.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against and by the Company or unasserted claims that may result in such proceedings, the Company's management evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed. Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

Fair value of financial instruments

The Company adopted the guidance of Accounting Standards Codification ("ASC") 820 for fair value measurements which clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the balance sheets for cash, accounts receivable, loans payable, accounts payable and accrued expenses approximate their fair market value based on the short-term maturity of these instruments. The Company did not identify any assets or liabilities that are required to be presented on the balance sheets at fair value in accordance with the accounting guidance.

ASC 825-10 "*Financial Instruments*" allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding instruments.

Reporting by segment

No segmental information is presented as the Company only has one significant reporting segment that is Government Revenues.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES AND ESTIMATES (continued)

Intangible assets

All of our intangible assets are subject to amortization. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired. Where intangibles are deemed to be impaired we recognize an impairment loss measured as the difference between the estimated fair value of the intangible and its book value.

a) Patents and License Agreements

Patents and License agreements acquired by the Company are reported at acquisition value less accumulated amortization and impairments.

b) Amortization

Amortization is reported in the income statement on a straight-line basis over the estimated useful life of the intangible assets, unless the useful life is indefinite. Amortizable intangible assets are amortized from the date that they are available for use. The estimated useful life of the patents and license agreement is twenty years which is the term of the patents and patents supporting the underlying license agreements

Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed using straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

| | |
|------------------------|----------|
| Leasehold improvements | 5 Years |
| Laboratory equipment | 7 Years |
| Furniture and fixtures | 10 Years |
| Computer equipment | 3 Years |

The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition.

We examine the possibility of decreases in the value of fixed assets when events or changes in circumstances reflect the fact that their recorded value may not be recoverable. We recognize an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value.

Concentrations of credit risk

The Company's operations are carried out in the USA. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the USA and by the general state of the economy. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, and rates and methods of taxation, among other things.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES AND ESTIMATES (continued)

Concentration of major customers

The Company currently derives substantially all of its revenues from Government research contracts and Government grants.

These Government research contracts are primarily from one government agency; the National Institutes of Health. The granting of research contracts from Government agencies is a competitive process and there is no certainty that we will be awarded future contracts, which may cause our revenue to fluctuate from year to year. Furthermore, Government grants are subject to audits by the granting agency. If such audits were to determine that expenditures of the grant funds did not meet the applicable criteria, these amounts could be subject to retroactive adjustment and refunded to the granting agency.

Total revenues by customer type are as follows:

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|-------------------------------|---|---|---|---|
| National Institutes of Health | \$ 95,158 | \$ 82,662 | \$ 125,811 | \$ 336,882 |
| | <u>\$ 95,158</u> | <u>\$ 82,662</u> | <u>\$ 125,811</u> | <u>\$ 336,882</u> |

Accounts receivable and other receivables

We have a policy of reserving for uncollectible accounts based on our best estimate of the amount of probable credit losses in our existing accounts receivable. As a basis for accurately estimating the likelihood of collection of our accounts receivable, we consider a number of factors when determining reserves for uncollectible accounts. We believe that we use a reasonably reliable methodology to estimate the collectability of our accounts receivable. We review our allowances for doubtful accounts on a regular basis. We also consider whether the historical economic conditions are comparable to current economic conditions. If the financial condition of our customers or other parties that we have business relations with were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The balance of the receivables provision as at June 30, 2015 and December 31, 2014 was \$19,084. The amount charged to bad debt provision for the six months ended June 30, 2015 and 2014 was \$0 and \$0, respectively.

Cash and cash equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid instruments purchased with a maturity of three months or less and money market accounts to be cash equivalents. The Company maintains cash and cash equivalents with two financial institutions in the USA.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES AND ESTIMATES (continued)

Revenue recognition

Revenue sources consist of government grants, government contracts and commercial development contracts.

We account for our long-term Firm Fixed Price Government contracts and grants associated with the delivery of research on drug candidates and the development of drug candidates using the percentage-of-completion accounting method. Under this method, revenue is recognized based on the extent of progress towards completion of the long-term contract.

We generally use the cost-to-cost measure of progress for all of our long-term contracts, unless we believe another measure will produce a more reliable result. We believe that the cost-to-cost measure is the best and most reliable performance indicator of progress on our long-term contracts as all our contract estimates are based on costs that we expect to incur in performing our long-term contracts and we have not experienced any significant variations on estimated to actual costs to date. Under the cost-to-cost measure of progress, the extent of progress towards completion is based on the ratio of costs incurred-to-date to the total estimated costs at the completion of the long-term contract. Revenues, including estimated fees or profits are recorded as costs are incurred.

When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined.

To a much lesser extent, we enter into fixed fee commercial development contracts that are not associated with the delivery of feasible research on drug candidates and the development of drug candidates. Revenue under such contracts is generally recognized upon delivery or as the development is performed.

Sales and Marketing

Sales and marketing expenses are minimal at present. These costs, if any, are expensed as incurred and included in Selling, general and administrative expenses. The Company expects to incur sales and marketing expenses in future periods to promote its services to drug discovery enterprises.

Research and Development

The remuneration of the Company's research and development staff, materials used in internal research and development activities, and payments made to third parties in connection with collaborative research and development arrangements, are all expensed as incurred. Where the Company makes a payment to a third party to acquire the right to use a product formula which has received regulatory approval, the payment is accounted for as the acquisition of a license or patent and is capitalized as an intangible asset and amortized over the shorter of the license period or the patent life.

The amount expensed for unrecovered research costs, included in Selling, general and administrative expenses during the three months ended June 30, 2015 and 2014 was \$75,034 and \$85,162, and for the six months ended June 30, 2015 was \$102,900 and \$157,565, respectively.

Patent Costs

Legal costs in connection with approved patents and patent applications are expensed as incurred and classified as Selling, general and administrative expense in our condensed consolidated statements of operations.

Share-Based Compensation

Share-based compensation cost is measured at the grant date, based on the estimated fair value of the award and is recognized as expense over the employee's requisite service period or vesting period on a straight-line basis. Share-based compensation expense recognized in the condensed consolidated statements of operations for the three months and the six months ended June 30, 2015 and 2014 is based on awards ultimately expected to vest and has been reduced for estimated forfeitures. This estimate will be revised in subsequent periods if actual forfeitures differ from those estimates. We have no awards with market or performance conditions.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES AND ESTIMATES (continued)

Income Taxes

The Company utilizes ASC 740, Accounting for Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Net income (loss) per Share

Basic net income (loss) per share is computed on the basis of the weighted average number of common stock outstanding during the period.

Diluted net income (loss) per share is computed on the basis of the weighted average number of common stock and common stock equivalents outstanding. Dilutive securities having an anti-dilutive effect on diluted net income (loss) per share are excluded from the calculation.

Dilution is computed by applying the treasury stock method for options and warrants. Under this method, "in-the money" options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Dilution is computed by applying the if-converted method for convertible preferred stocks. Under this method, convertible preferred stock is assumed to be converted at the beginning of the period (or at the time of issuance, if later), and preferred dividends (if any) will be added back to determine income applicable to common stock. The shares issuable upon conversion will be added to weighted average number of common stock outstanding. Conversion will be assumed only if it reduces earnings per share (or increases loss per share).

Related parties

Parties are considered to be related to the Company if the parties that, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. The Company shall disclose all related party transactions. All transactions shall be recorded at fair value of the goods or services exchanged. Property purchased from a related party is recorded at the cost to the related party and any payment to or on behalf of the related party in excess of the cost is reflected as a distribution to the related party.

Derivative Liabilities

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirements of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional, as described.

The Company had no derivative liabilities as of June 30, 2015.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES AND ESTIMATES (continued)

Convertible Instruments

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with professional standards for “Accounting for Derivative Instruments and Hedging Activities”.

Professional standards generally provide three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as “The Meaning of “Conventional Convertible Debt Instrument”.

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with professional standards when “Accounting for Convertible Securities with Beneficial Conversion Features,” as those professional standards pertain to “Certain Convertible Instruments.” Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

ASC 815-40 provides that, among other things, generally, if an event that is not within the entity’s control could or require net cash settlement, then the contract shall be classified as an asset or a liability.

Recent accounting pronouncements

In January 2015, the FASB issued ASU No. 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” This ASU eliminates from U.S. GAAP the concept of extraordinary items. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. We do not expect the adoption of ASU 2015-01 to have a material effect on our financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification and improves current U.S. GAAP by placing more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (“VIE”), and changing consolidation conclusions for companies in several industries that typically make use of limited partnerships or VIEs. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2015-02 to have a material effect on our financial position, results of operations or cash flows.

In April 2015, FASB issued Accounting Standards Update (“ASU”) No. 2015-03, Interest – *Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, is to simplify presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU does not affect the recognition and measurement guidance for debt issuance costs. For public companies, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

In April 2015, FASB issued Accounting Standards Update No. 2015-04, *Compensation – Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets*, permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity’s fiscal year-end and apply that practical expedient consistently from year to year. The ASU is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.



XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES AND ESTIMATES (continued)

Recent accounting pronouncements (continued)

In April 2015, FASB issued Accounting Standards Update No. 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees paid in a Cloud Computing Arrangement*, provides guidance to customers about whether a cloud computing arrangement includes a software license. If such an arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for it as a service contract. For public business entities, the ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

In April 2015, FASB issued Accounting Standards Update No. 2015-06, *Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions*, specifies that, for purposes of calculating historical earnings per unit under the two-class method, the earnings (losses) of a transferred business before the date of a drop down transaction should be allocated entirely to the general partner. In that circumstance, the previously reported earnings per unit of the limited partners (which is typically the earnings per unit measure presented in the financial statements) would not change as a result of the dropdown transaction. Qualitative disclosures about how the rights to the earnings (losses) differ before and after the dropdown transaction occurs for purposes of computing earnings per unit under the two-class method also are required. The ASU is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Earlier application is permitted. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

Any new accounting standards, not disclosed above, that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

3. LIQUIDITY

The Company recently concluded a private placement offering with gross proceeds of \$8,855,000 (See note 10 below) providing the Company with sufficient capital resources to meet its projected cash flow requirements in conducting its operations for at least the next twelve month period commencing on June 30, 2015. However there can be no assurance that additional and unforeseen non-recurring expenses will not arise during the next twelve month period or that the Company will be successful in completing its business development plan.

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

| | <u>June 30,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|-------------------------------|--------------------------------|------------------------------------|
| | <u>(unaudited)</u> | |
| Prepaid insurance | \$ 47,766 | \$ 18,093 |
| Prepaid rent | 2,500 | 20,936 |
| Prepaid equipment maintenance | 2,108 | 14,754 |
| Prepaid investor relations | 12,500 | - |
| Prepaid deal related costs | 23,844 | - |
| Surety bond | 209,255 | - |
| Other | 1,985 | 1,548 |
| | <u>\$ 299,958</u> | <u>\$ 55,331</u> |

Prepaid deal related costs, include legal and consulting costs directly related to the acquisition of certain assets acquired from Icagen, Inc, a wholly subsidiary of Pfizer, Inc. (refer note 18 below).

A surety bond of \$209,255 was posted as security for the sanctions levied against the Company in the Litigation with the Estate of Sigmund Eisenschenk, the bond was necessary as we have appealed these sanctions (refer note 16 below).

5. INTANGIBLE ASSETS

Patents and Licenses

In terms of an Exclusive Patent License agreement (“License”) covering national and international patents entered into with the Los Alamos National Security LLC (“the Licensor”) dated September 8, 2005, the Company has the exclusive right to the use of certain patents. On October 15, 2014, the national and international patents owned by Los Alamos National Security and previously licensed to the Company were assigned to the Company.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. INTANGIBLE ASSETS (continued)

Patents and Licenses (continued)

On January 29, 2015, the Company sent a notice to LANS informing them that upon the assignment of all the patents underlying the License Agreement on October 15, 2014, that the license agreement was terminated ab Initio and that the 90 day notice period was waived, alternatively the letter serves as our 90 day notice period. No provision for license fee payments have been made for the three months and six months ended June 30, 2015.

The patents consist of the following:

- Method for Detecting Binding Events Using Micro X-Ray Fluorescence Spectrometry;
- Flow Method and Apparatus for Screening Chemicals Using Micro X-Ray Fluorescence;
- Method and Apparatus for Detecting Chemical Binding;
- Drug Development and Manufacturing.
- Advanced Drug Development and Manufacturing (The Licensor assigned its rights to this application to the Company, which already owned rights to this patent assigned to the Company by inventors currently and previously employed by the Company).
- Well Plate – apparatus for preparing samples for measurement by x-ray fluorescence spectrometry. Patent filed August 15, 2008
- Method and Apparatus for measuring Protein Post Translational Modification. Patent filed September 26, 2008.
- Method and Apparatus for Measuring Analyte Transport across barriers. Patent filed July 1, 2009.
- Advanced Drug Development and Manufacturing.

The Company has various other patents pending or registered in its name. These patents have been internally generated and all costs associated with the research and development of these patents has been expensed.

Patents and licenses consist of the following:

| | June 30, 2015 | December 31, 2014 |
|--------------------------------|--------------------------|------------------------------|
| | (unaudited) | |
| Patents and Licenses, at cost | \$ 972,000 | \$ 972,000 |
| Less: Accumulated amortization | (506,635) | (480,793) |
| | \$ 465,365 | \$ 491,207 |

The aggregate amortization expense charged to operations was \$12,921 and \$12,921 for the three months ended June 30, 2015 and 2014, and \$25,842 and \$25,841 for the six months ended June 30, 2015 and 2014, respectively. The amortization policies followed by the Company are described in Note 2.

Amortization expense for future periods is summarized as follows:

| | Amount |
|---------------------|-------------------|
| Remainder of 2015 | \$ 25,842 |
| 2016 | 51,684 |
| 2017 | 51,684 |
| 2018 | 51,684 |
| 2019 and thereafter | 284,471 |
| Total | \$ 465,365 |

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. PLANT AND EQUIPMENT

Plant and equipment consists of the following:

| | June 30, 2015 | December 31, 2014 |
|--------------------------|--------------------------|------------------------------|
| | (unaudited) | |
| Leasehold improvements | \$ 6,393 | \$ 6,393 |
| Furniture and fittings | 18,433 | 26,148 |
| Laboratory equipment | 1,016,958 | 965,811 |
| Computer equipment | 39,847 | 32,459 |
| Total | <u>1,081,631</u> | <u>1,030,811</u> |
| Accumulated depreciation | (612,725) | (549,160) |
| | <u>\$ 468,906</u> | <u>\$ 481,651</u> |

The aggregate depreciation charge to operations was \$32,823 and \$27,821 for the three months ended June 30, 2015 and 2014, respectively and \$65,049 and \$54,780 for the six months ended June 30, 2015, respectively. The depreciation policies followed by the Company are described in Note 2.

7. OTHER PAYABLES AND ACCRUED EXPENSES

| | June 30, 2015 | December 31, 2014 |
|-------------------------------|--------------------------|------------------------------|
| | (unaudited) | |
| Credit card liabilities | \$ 15,576 | \$ 10,393 |
| Vacation and Sick Pay accrual | 134,693 | 125,394 |
| Other payables | 265,000 | 490,625 |
| Payroll liabilities | 116,496 | 66,731 |
| Other | 62,250 | 92,110 |
| | <u>\$ 594,015</u> | <u>\$ 785,253</u> |

The other payables consist of an accrual for the anticipated judgment liability handed down in the “*Litigation with the estate of Sigmund Eisenschenk*”, on March 16, 2015 as disclosed in note 16 below.

8. LOANS PAYABLE

| | June 30, 2015 | December 31, 2014 |
|--|--------------------------|----------------------------------|
| | (unaudited) | |
| Short term portion | | |
| Los Alamos County project participation loan | \$ 35,421 | \$ 34,552 |
| Long term portion | | |
| Los Alamos County project participation loan | 124,557 | 142,502 |
| Total | <u>\$ 159,978</u> | <u>\$ 177,054</u> |

The amortization of the principal outstanding on the loans payable is as follows:

| | Amount |
|---------------|-------------------|
| Within 1 year | \$ 35,421 |
| 1 to 2 years | 37,233 |
| 2 to 3 years | 39,138 |
| 3 to 4 years | 41,141 |
| Thereafter | 7,045 |
| Total | <u>\$ 159,978</u> |

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. LOANS PAYABLE (continued)

Los Alamos County project participation loan

The Company entered into a Project Participation Agreement (as Amended) and a Loan Agreement with the Incorporated County of Los Alamos as of September 21, 2006. The Agreement provided for funding up to a maximum of \$2,200,000 for the construction of a building and purchase of equipment. The maximum amount of equipment to be funded out of the total available loan of \$2,200,000 was \$625,000. The term of the loan is 13 years. The loan agreement provided for no repayments for 36 months with 120 equal monthly repayments commencing on September 21, 2009. The interest rate on the loan is 5% per annum. The assets funded in terms of the Project Participation Agreement and the Loan Agreement is to be used as security for the balance of the loan outstanding. The Company made use of the loan to purchase assets amounting to \$302,009 during the 2007 financial year. Repayments of the loan commenced on September 21, 2009 at an interest rate of 5% per annum with equal monthly repayments of \$3,547, inclusive of interest. The Company owed \$159,978 and \$177,054 as of June 30, 2015 and December 31, 2014, respectively.

9. PREFERRED STOCK

Preferred Stock consists of 10,000,000 authorized preferred shares of \$0.001 par value each, of which 400,000 are designated as Series A 8% convertible redeemable preferred shares of \$0.001 each and 3,000,000 are designated as Series B convertible preferred shares of \$0.001 each, with the remaining 6,600,000 preferred shares remaining undesignated.

Series A 8% Convertible, Redeemable Preferred Stock ("Series A Stock")

Series A Stock consists of 400,000 designated shares of \$0.001 par value each, 105,000 shares issued and outstanding as of June 30, 2015 and December 31, 2014.

Conversion

The Series A Stock will convert to common stock of the Company at a price of \$11.40 per share of Common Stock subject to adjustment for stock splits, stock dividends and any further recapitalizations. The Series A Stock is subject to voluntary conversion at the option of the stockholder at any time and mandatory conversion at the option of the Company provided the Company's common stock is trading on a recognized stock exchange or Over the Counter Bulletin Board and the volume weighted average price of the Company's common stock is at least \$20 per share, subject to stock splits, stock dividends and recapitalizations.

Warrants

The original holders of Series A Stock had received warrants to purchase 170,804 shares of the Company's common stock at an exercise price of \$11.40 per share. The warrants expire five years after date of issuance. In terms of the exchange agreement entered into with the Company on April 30, 2013, these warrants remain in place. These warrants are not transferable without the consent of the Company and an opinion of counsel satisfactory to the Company.

Redemption

Should the Company receive net proceeds of at least \$3 million from litigation proceedings against the Regents of the University of California and Los Alamos National Security; the remaining Series A stockholders will have the option to have the Company redeem the Series A Stock equal to 130% of the initial investment in the Company by the stockholder. The Company also has the option to redeem the Series A Stock at a price equal to 130% of the initial investment in the Company by the stockholder at any time after giving the investors notice and allowing them to exercise their conversion rights into common stock 30 days after notice has been received.

Liquidation

The liquidation rights of the Series A Stock is the greater of \$5.70 per share plus any unpaid dividends or an amount that would have been payable had all shares of Series A Stock converted into common stock immediately prior to liquidation.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. PREFERRED STOCK (continued)

Series A 8% Convertible, Redeemable Preferred Stock ("Series A Stock") (continued)

Dividends

The Series A Stock carries an 8% cumulative, non-compounded dividend payable on January 31st, each year in cash or in kind at the option of the Series A stockholder. For any other dividends or distributions, the Series A Stock is treated on an as-converted basis.

An accrual for Series A Stock dividends of \$12,042 and \$12,042 was made for the three months ended June 30, 2015 and 2014 and \$23,952 and \$23,951 for the six months ended June 30, 2015, respectively.

During the six months ended June 30, 2015 and the year ended December 31, 2014, the Company paid \$48,300 and \$29,774 of accrued Series A stock dividends.

Series B Convertible Preferred Stock ("Series B Stock")

Series B Stock consists of 3,000,000 designated shares of \$0.001 par value each and 0 and 2,133,947 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively.

On January 31, 2015, in accordance with the terms of the various exchange agreements (the "Series B Preferred Stock Exchange Agreements") entered into between the Company, and the holders of its outstanding Series B Preferred Stock, each holder of Series B Preferred Stock exchanged all of their shares of Series B Preferred Stock for the number of shares of the Company's common stock, par value \$0.001 per share (the "Common Stock") determined by dividing the sum of the amount of the holder's initial investment in the Series B Preferred Stock, plus all accrued and unpaid dividends owed to the holder, by \$3.50. All 2,133,947 outstanding shares of the Company's Series B Preferred Stock, including accrued and unpaid dividends thereon, were exchanged for 1,803,820 shares of the Common Stock, resulting in no shares of Series B Preferred Stock remaining outstanding.

The following is a summary of material provisions of the Series B Stock as set forth in the Certificate of Designations.

Conversion

Subject to adjustment as more fully described herein, each Series B Stock is currently convertible at the option of the holder into one share of Common Stock. Each Series B Stock (together with any accrued but unpaid dividends thereon) is convertible into shares of Common Stock at the option of the holder at any time at a conversion price per share equal to the sum of the Stated Value and any accrued but unpaid dividends thereon through the date of notice of conversion divided by the Conversion Price, subject to adjustment as described below. The initial Conversion Price is equal to the Stated Value. If the Company merges or sells its assets, holders of Series B Stock will be entitled to receive on conversion the securities or property (including cash) of the successor corporation that they would have received as a result of that merger or sale if they had converted immediately beforehand. At any time after the Common Stock is listed on a national securities exchange as defined in the Securities Exchange Act of 1934, the Company may cause the conversion of the Series B Stock, plus accrued but unpaid dividends into shares of Common Stock, each Series B Stock convertible into such number of shares of Common Stock as is equal to the sum of the Stated Value plus any accrued but unpaid dividends through the date of conversion divided by the lower of the then conversion price and the market price of the Company's Common Stock. Market Price is defined as the average of the reported closing sales price of the Common Stock for each of the five trading days for which a closing sales price is reported immediately preceding the day prior to the conversion.

Liquidation

In the event of a liquidation, dissolution or winding up of the Company and other Liquidation Events as defined in the Certificate of Designations, holders of Series B Stock are entitled to receive from proceeds remaining after distribution to the Company's creditors and prior to the distribution holders of Common Stock or any other class of preferred stock the (x) Stated Value (as adjusted for any stock splits, stock dividends, reorganizations, recapitalizations and the like) held by such holder and (y) all accrued but unpaid dividends on such shares.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. PREFERRED STOCK (continued)

Series B Convertible Preferred Stock (“Series B Stock”) (continued)

Anti-Dilution

If the Company issues Common Stock or securities convertible, exercisable or exchangeable into Common Stock for a purchase price of less than \$5.00 per share then the holders of the Series B Stock will be entitled to a weighted-average” adjustment in the number of common shares that their Series B Stock can be converted into; provided, however, that there will be no adjustment to the number of shares of Common Stock that the Series B Stock can be converted into for (i) issuance or sale of Common Stock or options or other awards under the Corporation’s equity incentive plans or programs not to exceed 1,000,000 shares of Common Stock; (ii) issuance or sale of preferred stock or Common Stock issuable upon conversion, exchange or exercise of the Series A Stock or Series B Stock, the Bridge Notes, the Warrants issued in connection with the exchange of the Bridge Notes, the Warrants issued in connection with the issuance of the Series B Stock to the holders thereof, any Warrants issued to the Placement Agent or its designees in connection with the issuance of the Series B Stock or as an advisory fee or any other convertible securities or warrants outstanding on the date hereof; (iii) issuance of equity securities or rights to purchase equity securities issued in connection with commercial property or lease transactions that are approved by the Board of Directors; (iv) issuance of equity securities or rights to purchase equity securities issued for consideration other than cash pursuant to a merger, consolidation, acquisition or similar business combination approved by the Board of Directors; (v) issuance of securities to an entity as a component of any business relationship with such entity primarily for the purpose of (A) joint venture, technology or licensing development activities; (B) distribution, supply or manufacture of the Company’s products or services; or (C) any other arrangements involving corporate partners primarily for purposes other than raising capital, the terms of which business relationship with such entity are approved by the Board of Directors; and (vi) issuance of stock pursuant to a stock dividend or stock split.

Voting

Except as otherwise required by law and except as set forth below, holders of Series B Stock will, on an as-converted basis, vote together with the Common Stock as a single class. Each holder of Series B Stock is entitled to cast the number of votes equal to two times the number of shares of Common Stock into which such shares of Series B Stock could be converted at the record date for determining stockholders entitled to vote at the meeting. The approval by holders of a majority of the Series B Stock, voting separately as a class, will be required for the creation of any class or series of preferred stock ranking senior to or pari passu with the Series B Stock as to payments of dividends or upon the liquidation of the Company.

Financials

As soon as practicable after the filing of the Company’s Quarterly Report on Form 10-Q and its Annual Report on Form 10-K, the Holders of the Series B Stock are entitled to receive, upon request, a consolidated balance sheet of the Company, if any, as of the end of such fiscal year or quarter, and consolidated statements of operations and consolidated statements of cash flows and stockholders’ equity of the Company, if any, for such year or quarter, prepared in accordance with generally accepted accounting principles and setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail.

Dividends

Series B Stock accrue dividends at the rate per annum equal to (i) 8% of the sum of (x) the Stated Value and (y) the amount of accrued and unpaid dividends payable, out of funds legally available for payment, on January 31st of each year, if paid in cash, or (ii) 10% of the sum of (x) the Stated Value and (y) the amount of accrued and unpaid dividends payable, out of funds legally available for payment, on January 31st of each year, if paid in shares of Common Stock, based upon a price of \$5.00 per share of Common Stock. The Company shall have the option, to pay any such dividends in cash or shares of Common Stock. Such dividends shall be in preference and priority to any payment of any dividend on Common Stock, or any other class of preferred stock. Dividends are cumulative.

An accrual for Series B Stock dividends of \$0 and \$143,092 was made for the three months ended June 30, 2015 and 2014 and \$48,745 and \$281,176 was made for the six months ended June 30, 2015 and 2014, respectively.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. COMMON STOCK

Common stock consists of 50,000,000 authorized shares of \$0.001 each, 6,808,457 and 3,780,847 shares issued and 6,481,457 and 3,453,847 shares outstanding as of June 30, 2015 and December 31, 2014, respectively.

On December 31, 2014, we sold in a private placement offering (the "Private Placement") 716,981 units at a per unit price of \$7.00, each unit (the "Units") consisting of four shares of Common Stock, prior to the reverse stock split and a five year warrant (the "Private Placement Warrants") to acquire one share of Common Stock at an exercise price of \$1.75 per share, prior to the reverse stock split, to accredited investors for aggregate cash proceeds of \$5,018,867 pursuant to a master purchase agreement entered into with the investors (the "Purchase Agreements"). On January 7, 2015, we consummated the second closing in the Private Placement and sold an additional 548,019 Units for additional aggregate cash proceeds of \$3,836,133. The aggregate total number of Units sold in both closings was 1,265,000 Units, prior to the reverse stock split, for total gross proceeds of \$8,855,000. The number of shares of common stock issued and five year warrants to acquire one share of common stock in terms of the private placement amounted to approximately 2,530,000 and 632,531, respectively, after rounding up each fractional share or warrant after giving effect to the reverse stock split. In connection with the Private Placement, we filed a registration statement with the SEC for the resale by the purchasers of all of the Common Stock and the Common Stock underlying the Private Placement Warrants and all shares of Common Stock issuable upon any stock split, dividend or other distribution, recapitalization or similar event with respect thereto. The registration statement was declared effective on May 14, 2015. In addition, we registered the shares of Common Stock underlying the Placement Agent Warrants.

The Company retained Taglich Brothers, Inc., as the exclusive placement agent for the Offering. In connection therewith, the Company agreed to pay the placement agent an eight percent (8%) commission from the gross proceeds of the Offering (\$708,400) and reimbursed approximately \$35,000 in respect of out of pocket expenses, FINRA filing fees and related legal fees incurred by the placement agent in connection with the Offering. As of June 30, 2015 the Company has paid and recorded \$753,551 as share issue expenses related to common stock issuances on December 31, 2014 and January 7, 2015.

On January 31, 2015, in accordance with the terms of the various exchange agreements (the "Series B Preferred Stock Exchange Agreements") entered into between the Company, and the holders of its outstanding Series B Preferred Stock, each holder of Series B Preferred Stock exchanged all of their shares of Series B Preferred Stock for the number of shares of the Company's common stock, par value \$0.001 per share (the "Common Stock") determined by dividing the sum of the amount of the holder's initial investment in the Series B Preferred Stock, plus all accrued and unpaid dividends owed to the holder, by \$3.50. All 2,133,947 outstanding shares of the Company's Series B Preferred Stock, including accrued and unpaid dividends thereon, were exchanged for 1,803,820 shares of the Common Stock, resulting in no shares of Series B Preferred Stock remaining outstanding.

In terms of a court order dated March 16, 2015 handed down in the Estate of Sigmund Eisenschenk matter, the Company issued 177,500 shares, pre-reverse split to the Estate valued at \$310,625.

On June 16, 2015, in terms of a restricted stock award, 19,000 restricted shares were issued to the Chairman of our audit committee and one of our board directors as a once off compensation expense for his services as chairman of the audit committee. These shares vest as to 6,250 shares on June 30, 2015, 6,250 on September 30, 2015, 6,250 on December 31, 2015 and the 6,250 on March 31, 2016.

The restricted stock outstanding and exercisable at June 30, 2015 is as follows:

| Grant date Price | Restricted Stock Outstanding | | Restricted Stock Exercisable | |
|------------------|------------------------------|-----------------------------------|------------------------------|-----------------------------------|
| | Number Outstanding | Weighted Average Grant Date Price | Number Vested | Weighted Average Grant Date Price |
| \$ 3.50 | 19,000 | \$ 3.50 | 6,250 | \$ 3.50 |

The Company has recorded an expense of \$6,650 and \$0 for the six months ended June 30, 2015 and 2014, relating to the restricted stock award and a further \$59,850 will be expensed over the vesting period of the stock which takes place over the next nine months.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. WARRANTS

On January 7, 2015, the Company consummated the second closing in the Offering and sold an additional 548,019 Units, each unit including a five year warrant (“Offering Warrant”) to acquire one share of the Company’s Common Stock at an exercise price of \$1.75 per share, prior to the reverse stock split, after the reverse stock split the number of warrants outstanding to acquire one share of the Company’s Common stock was reduced to 274,019 warrants exercisable at a price of \$3.50 per share. These Offering Warrants contain cashless exercise provisions. In addition, the Company also issued the placement agent a five-year warrant exercisable for an aggregate amount of 253,000 shares of Common Stock at an exercise price of \$3.50 per share and an advisory warrant exercisable for an additional 100,000 shares of Common Stock at an exercise price of \$3.50 per share (the “Placement Agent Warrants”). The Company also filed a registration statement with the SEC for the resale by the purchasers of all of the Shares and the Common Stock underlying the Offering Warrants and all shares of Common Stock issuable upon any stock split, dividend or other distribution, recapitalization or similar event with respect thereto. The registration statement was declared effective on May 14, 2015. In addition, the Company registered the shares of Common Stock underlying the Placement Agent Warrants.

On January 31, 2015 the Company entered into: (i) exchange agreements (the “Series B Preferred Stock and Warrant Exchange Agreements”) with the holders of the warrants that were issued as part of the private placement of the Series B Preferred Stock (the “Existing Series B Warrants”) to exchange both Series B Preferred Stock for Common Stock and their 635,834 Existing Series B Warrants, (ii) exchange agreements (the “Bridge Warrant Exchange Agreements”) with the holders (the “Bridge Warrant Holders”) of its 150,000 warrants that were issued in connection with the Company’s bridge note financing (the “Existing Bridge Warrants”), and (iii) exchange agreements (the “Placement Agent Exchange Agreements”) with Taglich Brothers, Inc. and its designees (the “Placement Agent Warrant Holders”) that were issued 143,401 warrants as compensation for the placement agent services provided in connection with the private placement of the Series B Preferred Stock (the “Existing Placement Agent Warrants”). The Existing Series B Warrants, the Existing Bridge Warrants and the Existing Placement Agent Warrants are collectively referred to as the “Existing Warrants”. Pursuant to the terms of the Bridge Warrant Exchange Agreements, the Series B Preferred Stock and Warrant Exchange Agreements and the Placement Agent Exchange Agreements, the Existing Bridge Warrants, the Existing Series B Warrants and the Existing Placement Agent Warrants were exchanged for new warrants (the “Series B Exchange Warrants,” the “Bridge Exchange Warrants” and the “Placement Agent Exchange Warrants”), which have substantially similar terms to the Existing Warrants except that: (i) the exercise price of the Series B Exchange Warrants, the Bridge Exchange Warrants and the Placement Agent Exchange Warrants are 30% less than the exercise price of the Existing Warrants for which they were exchanged (such that: (x) the 150,000 Bridge Exchange Warrants have an exercise price of \$4.20; (y) the 143,401 Placement Agent Exchange Warrants have an exercise price of \$3.85; and (z) the 635,834 Series B Exchange Warrants have an exercise price of \$3.50); (ii) the Bridge Exchange Warrants, the Series B Exchange Warrants and the Placement Agent Exchange Warrants do not contain anti-dilution price protection for issuances of securities at per share prices that are lower than the exercise price; (iii) the Bridge Exchange Warrants, the Series B Exchange Warrants and the Placement Agent Exchange Warrants are assignable by their holders; and (iv) the Bridge Exchange Warrants, the Series B Exchange Warrants and the Placement Agent Exchange Warrants provide for certain buy-in-rights in the event that the Company fails to deliver shares of Common Stock underlying the warrant in a timely manner.

Effective January 1, 2015, the Company issued 32,500 warrants exercisable at \$3.50 per share to Blueprint Media, LLC, in terms of an agreement entered into to provide investor relations consulting services to the Company. Included in stock compensation charge is an amount of \$94,095 which represents the value of these warrants determined using a Black-Scholes valuation model.

The following weighted average assumptions were used in the Black-Scholes valuation model:

| | Six months ended June 30, 2015 |
|---|---|
| Calculated stock price | \$ 3.50 |
| Risk-free interest rate | 2.12% |
| Expected life of options | 5 Years |
| Expected volatility of the underlying stock | 119.3% |
| Expected dividend rate | 0% |

On March 4, 2015, the holders of the 20,000 Placement Agent advisory warrants exercisable at \$0.02 per share exercised their warrants for cash proceeds of \$400.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. WARRANTS (continued)

The following table summarizes warrants outstanding and exercisable as of June 30, 2015:

| Exercise Price | Warrants Outstanding | | | Warrants Exercisable | |
|----------------|----------------------|--|---------------------------------|----------------------|---------------------------------|
| | Number of shares | Weighted average remaining contractual years | Weighted Average Exercise Price | Number of Shares | Weighted Average exercise Price |
| \$ 3.50 | 1,653,865 | 4.64 | | 1,653,865 | |
| \$ 4.00 | 7,500 | 1.34 | | 7,500 | |
| \$ 4.20 | 150,000 | 2.61 | | 150,000 | |
| \$ 3.85 | 143,401 | 5.01 | | 143,401 | |
| \$ 11.40 | 192,204 | 0.94 | | 192,204 | |
| | <u>2,146,970</u> | 4.18 | \$ 4.28 | <u>2,146,970</u> | \$ 4.28 |

12. STOCK BASED COMPENSATION

In October 2005, the Company's Board of Directors adopted the Caldera Pharmaceuticals, Inc. 2005 Stock Option Plan (the "Plan"), which permits awards of incentive and nonqualified stock options and other forms of incentive compensation to employees and non-employees such as directors and consultants. The Board has set aside 1,500,000 shares of common stock for issuance upon exercise of grants made under the Plan. Options granted under the Plan vest either immediately or over a period of up to two years, and expire 1 year to 10 years from the grant date. At June 30, 2015, 567,772 shares were available for future grant under the Incentive Plan.

On March 12, 2015, the Board of Directors authorized the re-pricing of 56,770 Stock options, post reverse stock split, issued to certain scientific employees to recognize their contribution to the commercialization efforts of the Company. These Stock options were originally exercisable at priced of \$11.40 per share which exercise price has been reduced to \$4.00 per share. These Stock options are fully vested and resulted in a stock option based compensation charge of \$32,375 for the six months ended June 30, 2015.

On January 7, 2015, in terms of an employment agreement entered into with Richard Cunningham, our new CEO, a further 250,000 ten-year stock options excisable at \$3.50 per share were issued to him. These options vest as follows: 50,000 on November 24, 2015, 150,000 vest equally over a period of 36 months commencing on November 24, 2015 and 50,000 on November 24, 2018.

On February 2, 2015, a further 5,000 ten-year stock options were awarded to a new employee, exercisable at \$3.50 per share and vesting as to 1,250 stock options annually on the anniversary date of employment over the next four years.

Stock option based compensation expense totaled \$76,913 and \$60,741 for the three months ended June 30, 2015 and 2014 and \$160,805 and \$247,264 for the six months ended June 30, 2015 and 2014, respectively. The Company expenses the value of stock options on a straight line basis over the life of the options. The fair value of the options granted is determined using the Black-Scholes option-pricing model.

The following weighted average assumptions were used for the six months ended June 30, 2015:

| | <u>Six months ended June 30, 2015</u> |
|---|---------------------------------------|
| Calculated stock price | \$ 3.50 – 4.00 |
| Risk-free interest rate | 1.68% to 2.10% |
| Expected life of options | 1-10 Years |
| Expected volatility of the underlying stock | 119.3% |
| Expected dividend rate | 0% |

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. STOCK BASED COMPENSATION (continued)

As noted above, the fair value of stock options is determined by using the Black-Scholes option-pricing model. For all options granted since October 1, 2005 the Company has generally used option terms of between 1 to 10 years. The volatility of the common stock is estimated using historical data of companies similar in size and in the same industry as the Company. The risk-free interest rate used in the Black-Scholes option-pricing model is determined by reference to historical U.S. Treasury constant maturity rates with maturities approximate to the life of the options granted. An expected dividend yield of zero is used in the option valuation model, because the Company does not expect to pay any cash dividends in the foreseeable future. As of June 30, 2015, the Company does not anticipate any awards will be forfeited in the calculation of compensation expense due to the limited number of employees that receive stock option grants.

No options were exercised for the six months ended June 30, 2015 and the year ended December 31, 2014, respectively.

We canceled options exercisable for 48,724 and 255,262 shares of common stock for the six months ended June 30, 2015 and the year ended December 31, 2014, respectively, held by employees whose service to our company terminated during those respective periods. The shares underlying such options were returned to and are available for re-issuance under the 2005 Plan pursuant to the terms described above.

A summary of all of our option activity during the period January 1, 2014 to June 30, 2015 is as follows:

| | <u>Shares</u> | <u>Exercise Price per Share</u> | <u>Weighted Average Exercise Price</u> |
|-------------------------------|----------------|---------------------------------|--|
| Outstanding January 1, 2014 | 825,214 | \$ 0.40-11.42 | \$ 4.62 |
| Granted | 156,000 | 5.00 | 5.00 |
| Forfeited/Cancelled | (255,262) | 5.00-11.42 | 5.26 |
| Exercised | - | - | - |
| Outstanding December 31, 2014 | 725,952 | \$ 0.40-11.42 | \$ 3.82 |
| Granted | 255,000 | 3.50 | 3.50 |
| Forfeited/Cancelled | (48,724) | \$ 5.00-11.42 | 6.34 |
| Exercised | - | - | - |
| Outstanding June 30, 2015 | <u>932,228</u> | <u>\$ 0.40-11.42</u> | <u>\$ 3.69</u> |

Stock options outstanding as of June 30, 2015 and December 31, 2014, as disclosed in the above table, have an intrinsic value of \$345,750.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. STOCK BASED COMPENSATION (continued)

The following tables summarize information about stock options outstanding as of June 30, 2015:

| Exercise Price | Options Outstanding | | | Options Exercisable | |
|----------------|---------------------|--|---------------------------------|---------------------|---------------------------------|
| | Number of shares | Weighted average remaining contractual years | Weighted Average Exercise Price | Number of Shares | Weighted Average exercise Price |
| \$ 0.40 | 15,000 | 6.84 | | 15,000 | |
| \$ 2.20 | 110,000 | 5.67 | | 110,000 | |
| \$ 3.00 | 312,500 | 7.71 | | 312,500 | |
| \$ 3.50 | 255,000 | 9.53 | | - | |
| \$ 4.00 | 64,270 | 3.01 | | 63,645 | |
| \$ 5.00 | 139,958 | 5.06 | | 88,634 | |
| \$ 11.42 | 35,500 | 3.43 | | 35,500 | |
| | 932,228 | 7.07 | \$ 3.69 | 625,279 | \$ 3.66 |

The weighted-average grant-date fair values of options granted during the six months ended June 30, 2015 and the year ended December 31, 2014 was \$844,577 (\$3.31 per option) and \$302,080 (\$1.94 per option), respectively. As of June 30, 2015 there were unvested options to purchase 306,949 shares of common stock. Total expected unrecognized compensation cost related to such unvested options is \$832,265, which is expected to be recognized over a period of 43 months.

13. NET INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per share is based on the weighted-average number of common shares outstanding during each period. Diluted income (loss) per share is based on basic shares as determined above plus the incremental shares that would be issued upon the assumed exercise of "in-the-money" stock options and warrants using the treasury stock method and the inclusion of all convertible securities, including preferred stock and convertible notes, assuming these securities were converted at the beginning of the period or at the time of issuance, if later. The computation of diluted net income (loss) per share does not assume the issuance of common shares that have an anti-dilutive effect on net income (loss) per share.

For the three and the six months ended June 30, 2015 and for the three months ended June 30, 2014, the following options, warrants and convertible preferred stock were excluded from the computation of diluted net loss per shares as the result of the computation was anti-dilutive:

| | Three and six months ended June 30, 2015 (Shares) | Three months ended June 30, 2014 (Shares) |
|--|--|--|
| Options to purchase shares of common stock | 932,228 | 980,902 |
| Warrants | 2,146,970 | 1,148,936 |
| Series A convertible, redeemable preferred stock | 52,500 | 52,500 |
| Series B convertible preferred stock | - | 1,066,974 |
| | 3,131,698 | 3,249,312 |

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. NET INCOME (LOSS) PER COMMON SHARE (continued)

For the six months ended June 30, 2014 the computation of basic and diluted earnings per share is as follows:

| | For the six months ended June 30, 2014 | | |
|---|---|---------------|-----------------------------|
| | Income | Shares | Per share amount |
| Net income | \$ 4,368,314 | | |
| Preferred stock dividends | (305,127) | | |
| Basic Earnings per share | | | |
| Income available to common stockholders | 4,063,187 | 2,048,166 | \$ 1.98 |
| Effect of dilutive securities | | | |
| Warrants | - | 19,822 | |
| Options | - | 14,974 | |
| Series A Preferred stock | 23,951 | 52,500 | |
| Series B Preferred stock | 281,176 | 1,066,973 | |
| Diluted Earnings per share | | | |
| Income available to common stockholders and assumed conversions | \$ 4,368,314 | 3,202,435 | \$ 1.36 |

For the six months ended June 30, 2014 options to purchase 855,902 shares of common stock and warrants to purchase 1,128,935 shares of common stock were excluded from the computation of diluted earnings per share as the option and warrant exercise prices was greater than the average market price of the common shares. These options and warrants were still outstanding as of June 30, 2014.

14. RELATED PARTY TRANSACTIONS

The majority of the common shares in the Company is owned by Dr. Benjamin Warner, the Founder and Board Member. As of June 30, 2015 and December 31, 2014, Dr. Benjamin Warner owned directly and indirectly 23.1% and 46.2%, respectively of the issued and outstanding shares of common stock on an un-diluted basis.

In terms of an employment agreement entered into with Richard Cunningham, our Chief Executive Officer, stock options to purchase 250,000 shares of the Company's common stock was awarded to Mr. Cunningham on January 7, 2015, which options vest as follows: (i) Fifty Thousand (50,000) shares shall vest on November 24, 2015; (ii) One Hundred and Fifty Thousand (150,000) shares shall vest monthly on a pro rata basis commencing on December 31, 2015 for a period of thirty six months; and (iii) Fifty Thousand (50,000) shares shall vest on the November 24, 2018. The exercise price for the options is \$3.50 per share. Upon a change of control, as defined in the Company's existing stock option plan, all unvested options issued to the Mr. Cunningham shall become fully vested immediately upon the change of control.

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. OPERATING LEASES

The Company entered into a laboratory and office lease agreement for 2,813 square feet in Cambridge, Massachusetts effective June 1, 2013. The term of the lease was for a twelve month period which terminated on May 31, 2014. The lease agreement is under renewal discussions for a further eighteen month period, expiring on December 31, 2015 for a monthly rental of approximately \$17,500, including estimated operating costs and property taxes. The rental charge for the six months ended June 30, 2015 amounted to \$97,190.

The Company's office lease in New Mexico terminated in October 2013 and has not been renewed. This lease is ongoing as a month to month lease for \$5,075 per month. Rental expense for the six months ended June 30, 2015 was \$30,452.

The Company pays for an apartment leased by one of our officers in Cambridge, Massachusetts. The original lease expired on June 30, 2014. This lease was renewed for the period July 1, 2015 to June 30, 2016 for a monthly rental of \$2,500. Rental expense for the six months ended June 30, 2015 amounted to \$15,000.

The Company paid for an apartment leased for certain of our officers in Cambridge Massachusetts. The lease was entered into on October 10, 2014 and terminated on July 6, 2015. The monthly rental amounted to approximately \$3,351. Rental expense for the six months ended June 30, 2015 amounted to \$20,121. This lease was not renewed upon termination.

Subsequent to June 30, 2015, the Company entered into an asset purchase agreement with Icagen, Inc., a subsidiary of Pfizer, Inc., whereby certain assets were acquired from Icagen, Inc., the agreement included the sub-letting of premises located at Research Triangle Park, Durham, North Carolina. The annual facility fee is expected to amount to \$166,000 for 2015 with annual calendar year escalations of 3.5%. The lease terminates on April 30, 2019.

Future annual minimum payments required under operating lease obligations as of June 30, 2015, are as follows:

| | <u>Amount</u> |
|-------------------|-------------------|
| Remainder of 2015 | \$ 203,682 |
| 2016 | 186,810 |
| 2017 | 177,823 |
| 2018 | 184,047 |
| 2019 | 63,496 |
| Total | <u>\$ 815,858</u> |

XRPRO SCIENCES, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. LITIGATION

Set forth below is a factual description of the status of Company's legal proceedings. It should not be misconstrued as the Company's acquiescence in any claimant's position with respect to such litigation. The Company continues to believe that the claims made against it do not have any merit whatsoever and intends to vigorously defend itself.

There have been no material litigation developments since the filing of our Annual Report on 10-K for the year ended December 31, 2014 other than as follows:

Bellows' Dividend Litigation

On March 16, 2015, the Company filed a second motion to disqualify the Bellows Law Group, P.C and Bellows & Bellows, P.C. On May 21, 2015, following oral arguments, the Court denied the Company's second motion to disqualify the Bellows' law Group PC and Bellows & Bellows PC.

On March 23, 2015, the Company filed a motion to dismiss Counts II-IV of the first amended complaint. On August 6, 2015, following oral arguments, the Court denied the Company's motion to dismiss Counts II-IV of the first amended complaint.

On July 2, 2015, Bellows filed a motion to supplement the record and take judicial notice of orders entered in a case brought by the Company in New Mexico against the Estate of Sigmund Eisenschenk and in probate proceedings to administer the Estate of Sigmund Eisenschenk in Illinois. On July 27, 2015, Bellows filed a revised motion to supplement the record and take judicial notice of orders entered into in a case brought by the Company in New Mexico against the Estate of Sigmund Eisenschenk in Illinois. On August 6, 2015, Bellows withdrew his motion for leave to supplement the record.

On August 6, 2015, the Court granted Bellows leave to file a second amended complaint.

Bellows' Redemption Litigation

On August 25, 2014, Joel Bellows filed a complaint against the Company and Benjamin Warner in the Chancery Division of the Circuit Court of Cook County, Illinois. In the complaint, Bellows alleges that he is entitled to redeem his Series A cumulative preferred stock at a price of \$7.41 pursuant to the terms of the Company's June 24, 2011, private placement memorandum. Bellows alleges that the Company and Warner violated his rights under the private placement memorandum by unreasonably and vexatiously denying his request for redemption.

The hearing on Defendants' motion to dismiss Counts I, II and III of the complaint was heard on June 22, 2015. On July 15, 2015, the Court issued a written ruling denying the Company and Warner's motion to dismiss Counts I, II and III of the complaint.

The hearing on the Defendants motion to dismiss Count IV of the complaint (breach of fiduciary duty) was continued on the Court's motion and the Court requested that the parties submit supplemental briefs to address (a) whether the Court should apply Delaware or Illinois law in evaluating the request to dismiss Count IV of the complaint, and (b) whether paragraph 19 of the Settlement Agreement is a choice of law or choice of forum provision.

Litigation with estate of Sigmund Eisenschenk

On March 27, 2015, the Company and Crane filed a motion to dismiss Counts I and II of the Petition for Citation to Recover and to Stay Counts IV-VI.

On March 31, 2015, American Millings, QTM Ventures LLC and the supervised administrator, Peter Schmiedel, filed petitions to approve attorneys' fees and costs in the amount of \$158,816.97, \$80,603.75 and \$37,080.00, respectively. On May 5, 2015, the Company filed its opposition to the fee petitions.

On April 14, 2015, the Company filed a notice of appeal from (1) paragraphs 1 through 6 of a March 16, 2015, order of the Probate Division of the Circuit Court of Cook County which amongst other things granted in part the petition to vacate certain claims filed by Lyon and Lane against the estate and (2) paragraphs 1 through 3 of a March 16, 2015 order which amongst other things granted summary judgment against the Company in favor of American Milling LP and supervised administrator Peter Schmiedel and finding that the estate owns no less than 177,500 shares of the Company's stock (the 177,500 shares effected by the reverse split will amount to 88,750 shares post reverse split which was effected under the Delaware General Corporation Law on March 25, 2015).

On April 14, 2015, the Company filed a motion pursuant to Illinois Supreme Court Rule 305 requesting a stay of enforcement of the orders of March 16, 2015, pending resolution of the appeal. The Company offered to place 177,500 shares of stock in escrow (the 177,500 shares effected by the reverse split will amount to 88,750 shares post reverse split which took place on March 25, 2015) as security in lieu of a bond pending resolution of the appeal. The Estate opposed the Company's request to deposit shares as collateral and requested that the Court require the posting of a money bond. On June 2, 2015, the Circuit Court denied the Company's request to post shares as collateral in lieu of a money bond to secure a stay of enforcement of the orders of March 16, 2015.

On May 26, 2015, following oral arguments on May 19, 2015, the Court entered an order that amongst things found the Company jointly

and severally liable for sanctions under Illinois Supreme Court Rule 137 and ordered the Company to remit \$97,500 to American Milling LP, \$24,050 to supervised administrator Peter Schmiedel and \$50,700 to QTM Ventures LLC.

16. LITIGATION (continued)

On May 26, 2015, following oral arguments on May 19, 2015, the Court denied the Company's request for a stay of Counts III-VI pending resolution of a declaratory judgment action filed by the Company in New Mexico. The Court also denied the Company's request for a stay pending the outcome of the Company's April 14, 2015, notice of appeal.

On June 8, 2015, the Company filed a notice of appeal from (1) an order of the Circuit Court dated March 16, 2015, that amongst other things awarded sanctions under Supreme Court Rule 137 in favor of American Milling LP, QTM Ventures LLC and supervised administrator Peter Schmiedel, (2) paragraphs 1 through 3 of an order of the Circuit Court dated March 16, 2015, that amongst other things granted summary judgment against the Company in favor of supervised administrator Peter Schmiedel, and (3) an order of the Circuit Court dated May 26, 2015, that amongst other things determined the amount of attorneys' fees the Company must pay to American Milling LP, QTM Ventures LLC and supervised administrator Peter Schmiedel.

On June 8, 2015, the Company filed a notice of appeal from an order of the Circuit Court dated May 26, 2015, which amongst other things denied the Company's motion to stay Counts III-VI.

On July 13, 2015, the probate court granted QTM's motion for a turnover order and ordered the Company to turnover 177,500 shares of stock to the Estate.

On July 20, 2015, the Court approved and Caldera posted an appeal bond in the amount of \$300,000 to secure the stay of enforcement of the orders of March 16, 2015 and May 26, 2015 that awarded sanctions against the Company in favor of American Milling, QTM Ventures and supervised administrator Peter Schmiedel.

On July 20, 2015, the Court granted QTM's request to file an amended citation by July 24, 2015. On July 24, 2015, QTM filed a motion for an extension of time to file its amended citation. On August 10, 2015, the Court granted QTM a final extension of time until August 24, 2015 to file an amended citation.

New Mexico Litigation Against the Estate of Eisenschenk

On July 16, 2015, the Company's action for declaratory relief against the Estate of Eisenschenk proceeded to trial in Santé Fe, New Mexico. In its complaint for declaratory relief, the Company sought amongst other things a declaration that (1) the Estate owns no shares of the capital stock of the Company or any options or rights thereto, or any ownership interest in the Company, (2) all of Eisenschenk's non-vested shares were properly recalled by reason of Eisenschenk's failure to meet the vesting requirements in the formation agreement Financing Term Sheet, (3) all of Eisenschenk's vested shares were properly and validly assigned and transferred to the Company by virtue of the Company's lawful exercise of its rights as a creditor-assignee under a contract and Eisenschenk's uncured breach thereof; and (4) a certificate bearing Eisenschenk's name is null and void having never been completed, authorized for issuance, issued or transferred to Eisenschenk. Following a bench trial before Judge Francis Mathew, the Court denied the Company's request for declaratory relief and dismissed the Company's complaint for declaratory relief without prejudice, further ruling that the Company's claims could be brought in the Circuit Court of Cook County, or any other Court of competent jurisdiction in Illinois.

17. COMMITMENTS AND CONTINGENCIES

In terms of the asset purchase agreement entered into on July 1, 2015, with Icagen, Inc., a wholly owned subsidiary of Pfizer, Inc. the Company is required to make additional purchase price payments of \$875,000 as follows:

| | <u>Amount</u> |
|-------------------|-------------------|
| September 1, 2015 | \$ 125,000 |
| December 1, 2015 | 125,000 |
| March 1, 2016 | 125,000 |
| July 1, 2017 | 500,000 |
| Total | <u>\$ 875,000</u> |

The Company is also obligated to make earn out payments of 10% of total Gross revenues, up to a maximum of \$10,000,000, commencing on revenues generated from January 1, 2017, which payments are to be made 60 days after each quarter end.

18. SUBSEQUENT EVENTS

On July 1, 2015, the Company consummated its purchase of certain assets of Icagen Inc., a wholly owned subsidiary of Pfizer Inc. (“Pfizer”) under the terms of an asset purchase and collaboration agreement that the Company entered into on June 26, 2015, pursuant to which the Company acquired certain assets of Icagen (including certain cell lines, office equipment, servers, biology instruments, benchtops and the Icagen name), assumed certain liabilities of Icagen and agreed to continue the employment of several employees of Icagen for at least two years. The Company agreed to pay: (i) an upfront cash purchase price of \$500,000, of which \$125,000 was paid at closing date, and \$375,000 is to be paid in three equal installments of \$125,000, on September 1, 2015, December 1, 2015 and March 1, 2016; (ii) a cash payment of \$500,000 on the second anniversary of the closing provided that prior to such date the MSSA (as defined below) has generated at least \$4,000,000 in revenue; and (iii) beginning in 2017, a quarterly earn out payment (the “Earn Out Payment”) of 10% of revenue earned during the quarter up to a maximum aggregate payment of \$10,000,000.

The Company also entered into a Master Scientific Services Agreement with Pfizer (the “MSSA”), the execution of which was a condition to closing under the APA. In accordance with the terms of the MSSA, the Company agreed to perform ion channel screening and other contract research for Pfizer, including but not limited to, on demand assay development, modification and optimization, compound screening, ion channel screening, reagent and cell line generation, biology platform development.

On July 23, 2015, the Board voted to authorize and seek approval of our shareholders of an amendment to our Certificate of Incorporation to change our name to Icagen, Inc. The Company acquired the affirmative consent of holders of 50.2% of our voting power to amend the Certificate of Incorporation to change the name of the Company to Icagen Inc. The Name Change will be effective upon the filing of an amendment to the Certificate of Incorporation with the Secretary of State of the State of Delaware, which is expected to occur as soon as reasonably practicable on or after the 20th day following the mailing of an Information Statement to shareholders.

Other than disclosed above, the Company has evaluated subsequent events through the date the unaudited condensed consolidated financial statements were available to be issued, and has concluded that no such events or transactions took place that would require disclosure herein.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with our consolidated financial statements and the notes presented herein and the risk factors and the financial statements and the other information set forth in our Annual Report on Form 10-K for the year ended December 31, 2014. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these forward-looking statements as a result of certain factors discussed herein and any other periodic reports filed and to be filed with the Securities and Exchange Commission.

Cautionary Note Regarding Forward-Looking Statements

This report and other documents that we file with the Securities and Exchange Commission contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management’s assumptions. Statements that are not historical facts are forward-looking statements. Words such as “expect,” “outlook,” “forecast,” “would,” “could,” “should,” “project,” “intend,” “plan,” “continue,” “sustain,” “on track,” “believe,” “seek,” “estimate,” “anticipate,” “may,” “assume,” and variations of such words and similar expressions are often used to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance and involve risks, assumptions and uncertainties, including, but not limited to, those described in our reports that we file or furnish with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. Except to the extent required by law, we undertake no obligation to update publicly any forward-looking statements after the date they are made, whether as a result of new information, future events, changes in assumptions or otherwise.

Recent Developments

On July 1, 2015, the Company consummated the acquisition contemplated by the Asset Purchase and Collaboration Agreement (“APA”) that it entered into with Icagen Inc., a wholly owned subsidiary of Pfizer Inc. (“Pfizer”). In terms of the agreement the Company acquired certain assets of Icagen (including certain cell lines, office equipment, servers, biology instruments, benchtops and the Icagen name), assumed certain liabilities of Icagen and agreed to continue the employment of several employees of Icagen for at least two years. The Company agreed to pay: (i) an upfront cash purchase price of \$500,000, of which \$125,000 was paid at closing date, July 1, 2015, and \$375,000 is to be paid in three equal installments of \$125,000, on September 1, 2015, December 1, 2015 and March 1, 2016; (ii) a cash payment of \$500,000 on the second anniversary of the closing provided that prior to such date the MSSA (as defined below) has generated at least \$4,000,000 in revenue; and (iii) beginning in 2017, a quarterly earn out payment (the “Earn Out Payment”) of 10% of revenue earned during the quarter up to a maximum aggregate payment of \$10,000,000.

The Company also entered into a Master Scientific Services Agreement with Pfizer (the "MSSA"), the execution of which was a condition to closing under the APA. In accordance with the terms of the MSSA, the Company agreed to perform ion channel screening and other contract research for Pfizer, including but not limited to, on demand assay development, modification and optimization, compound screening, ion channel screening, reagent and cell line generation, biology platform development. The MSSA and APA provide that Pfizer will guarantee revenue to the Company totaling at least \$1,000,000 for each of the first two 12-month periods following the closing on a "take or pay" basis.

Overview and Financial Condition

Through our recent asset acquisition of Icagen, we are now able to offer a full complement of screening services to the broader pharmaceutical sector, including the use of proprietary x-ray fluorescence technology called XRpro® to deliver ion channel screening, ion channel kinetics and custom screening services to our customers. Our proprietary technology is designed to detect and quantitatively analyze the x-ray signature of each element with an atomic number greater than 12, we combine the flexibility of the analysis with patented sample processing to address a wide range of ion channel and other biological targets. We believe that our technology can reduce the cost of drug discovery by detecting safety and efficacy issues at an early stage of development. To date, substantially all of our revenue has been derived from our analytical services that we have performed for United States governmental agencies. However, we expect that our future revenue will be derived from (i) provision of our analytical drug discovery services to commercial customers as well as United States governmental agencies; (ii) sale of instruments and consumables; and (iii) commercialization of new drug candidates that we identify using the Icagen and XRpro® drug discovery processes and instruments.

Since inception, we have financed our operations primarily through private sales of our securities, revenue derived from our analytical services that we have performed for United States governmental agencies and settlement of legal matters. We expect to continue to seek to obtain our required capital through the private sale of securities and revenue derived for the services we provide. To date, we have been granted twenty (20) contracts from United States governmental agencies; of which nine (9) were granted from the Department of Defense and eleven (11) were granted from the National Institutes of Health. Of such contracts, eighteen (18) have been completed and we received payment in full for all eighteen (18) completed contracts. All the contracts contained standard terms, including termination provisions which allow for the government to terminate the contract, in whole or in part, at any time for convenience. In that event, the government agency concerned would notify us of their intention to terminate, and all costs incurred in our performance of the work terminated will be recoverable and we will have no refund obligations for our research conducted to the date of termination. The contracts also contain Bayh-Dole and related provisions for disposition of intellectual property. The Bayh-Dole Act allows small businesses, such as ours, to retain title to federally funded inventions if we follow certain procedures, including filing for patent protection and actively pursuing commercialization of the invention, and the U.S. government retains a non-exclusive, non-transferable, paid up irrevocable license, throughout the world, with respect to the invention. In addition, the U.S. government also retains a "march in" right that allows it to license the invention to third parties, without our consent, if it determines that the invention is not being made available to the public on a reasonable basis. Set forth below are the details of the firm - fixed price contract under which we are continuing to provide services to the National Institutes of Health under which we expect to receive an additional \$682,500 for our services.

Contract 2R44AI079935-03 with the National Institutes of Health; to develop strontium-selective therapies, contract amount: \$3,000,000.00 operative from August 24, 2011 to July 31, 2014, approximately \$2,887,500 paid to date, \$112,500,000 remaining in contract. \$2,000,000 of the grant was awarded for the period August 24, 2011 to July 31, 2013. An additional \$1,000,000 was made available for us to invoice our project time and expenses against on July 9, 2013, initially expiring on July 31, 2014 and recently extended until August 31, 2015. To date we have received \$877,500 under this contract and we have \$112,500 remaining under the contract

Contract number 1R43AI091186-01A1 with the National Institutes of Health; to develop Radioactive Cesium decorporation Agents, contract amount of \$600,000 operative from July 1, 2014 to June 30, 2016. To date we have received approximately \$30,000 under this contact and have \$570,000 remaining under the contract

In terms of our recent acquisition of certain of the assets of Icagen, Inc. we also entered into a Master Scientific Services Agreement with Pfizer (the "MSSA"). In accordance with the terms of the MSSA, we agreed to perform ion channel screening and other contract research for Pfizer, including but not limited to, on demand assay development, modification and optimization, compound screening, ion channel screening, reagent and cell line generation, biology platform development.

Discussions with respect to our operations included herein include the operations of our operating subsidiary, XRpro Corp. Our company formed XRpro Corp. on July 9, 2010. We have no other operations than those of XRpro Sciences, Inc. and XRpro Corp.

Results of Operations for the three months ended June 30, 2015 and the three months ended June 30, 2014.

Revenues

We had revenues totaling \$95,158 and \$82,662 for the three months ended June 30, 2015 and 2014, respectively, an increase of \$12,496 or 15.1%. Substantially all of our revenues have been derived from federal government contracts. Our revenue is dependent on the number of contracts we have in operation and the progress we have made on these contracts to date. We have an order backlog of \$682,500 in the form of firm fixed price government contracts. We believe that these are firm orders as there are no indications that funding will not be available and we believe that we have made satisfactory progress on the project to date. The funds available under these grants are earned by us on a percentage-of-completion basis, based on the costs we incur as a measure of the progress made on the project. We have received unfulfilled purchase orders from commercial customers amounting to \$909,000, for which we will commence work in the third quarter.

Going forward, based on our recent acquisition, we plan to market our expanded Icagen and XRpro® services to potential customers. We believe that we now have a comprehensive product offering and substantial credibility to offer a full range of products including the advantages and value propositions of the XRpro® technology. While we are optimistic about our prospects, there can be no assurance about whether or when our products will generate sufficient revenues with adequate margins in order for us to be profitable.

We are pursuing several leads for the use of our expanded product offering, including the XRpro® technology by several significant companies within the pharmaceutical and biotech industry; however there can be no assurance that such leads will be successful and result in revenue.

Cost of goods sold

Cost of goods sold totaled \$129,666 and \$165,441 for the three months ended June 30, 2015 and 2014, respectively, a decrease of \$35,775 or 21.6%. Our cost of goods sold is dependent on the progress made on each project to date. Cost of goods sold is primarily comprised of direct expenses related to providing our services under our contracts. These expenses include salary expenses directly related to research contracts, recoverable expenses incurred on contracts, the cost of outside consultants, and direct materials used on our contracts. The salary expense included in cost of sales for the three months ended June 30, 2015 and 2014 respectively was \$52,610 and \$60,438, a decrease of \$7,828 or 12.9% due to less man hours spent on the Government contracts mentioned above. For additional information regarding salary expense reference is made to the discussion of total salary expense in selling, general and administrative expenses below. Included in cost of sales for the three months ended June 30, 2015 and 2014, respectively was laboratory supplies and direct materials of \$51,208 and \$78,476, a decrease of \$27,268 or 34.8%, the decrease is primarily due to the decreased activity on Government contracts. During the three months ended June 30, 2015 and 2014, respectively, outside contractors' costs amounted to \$22,950 and \$25,312, the decrease of \$2,362 or 9.3% is due to the scaling down of outside consultants working on Government contracts.

Gross loss

Gross loss was \$(34,508) and \$(82,779) for the three months ended June 30, 2015 and 2014, respectively, a decrease of \$48,271, or 58.3%. The decrease in gross loss is directly related to lower hours and lower spend on supplies and consultants due to lower activity levels on the government contracts and other research activities.

Selling, general and administrative expenses

Selling, general and administrative expenses totaled \$1,239,031 and \$794,523 for the three months ended June 30, 2015 and 2014, respectively, an increase of \$444,508 or 56.0%.

The major expenses making up selling, general and administrative expenses included the following:

| | Three months ended June 30, | | Increase/ (decrease) | Percentage change |
|-----------------------------------|--|-------------------|---------------------------------|------------------------------|
| | 2015 | 2014 | | |
| Marketing and selling expenses | \$ 38,897 | \$ 14,053 | \$ 24,844 | 176.8% |
| Salary expenses | 214,826 | 194,040 | 20,786 | 10.7% |
| Research and development salaries | 102,909 | 85,162 | 17,747 | 20.8% |
| Directors fees | 55,000 | 48,750 | 6,250 | 12.8% |
| Bonus expense | 25,000 | - | 25,000 | 100.0% |
| Stock option compensation charge | 83,563 | 60,741 | 22,822 | 37.6% |
| Legal fees | 218,757 | 88,591 | 130,166 | 146.9% |
| Legal settlement accrual | 85,000 | - | 85,000 | 100.0% |
| Consulting fees | 197,012 | 88,736 | 108,276 | 122.0% |
| Repairs and maintenance | 7,994 | 6,850 | 1,144 | 16.7% |
| Recruiting fees | - | 17,000 | (17,000) | (100.0)% |
| Rent | 85,802 | 77,299 | 8,503 | 11.0% |
| Travel expenditure | 20,168 | 31,551 | (11,383) | 36.1% |
| | <u>\$ 1,134,928</u> | <u>\$ 712,773</u> | <u>\$ 422,155</u> | <u>59.2%</u> |

Marketing and selling expenses for the three months ended June 30, 2015, primarily consists of marketing support provided by a third party contractor.

Total salary expenses are allocated to the various expense categories detailed below depending on the level of activity of our employees on government and commercial projects, internal research and development expenses and administrative activities. An increase in activity on projects will result in an increase in salary expense charged to cost of sales with a corresponding decrease in salary expense charged to selling, general and administrative expenses. A comparison of salary expenses is presented below.

Total salary expenditure for the three months ended June 30, 2015 and 2014, respectively was included in the following expense categories:

| | Three months ended | | Increase/ (decrease) | Percentage change |
|--|---------------------------|-------------------|---------------------------------|------------------------------|
| | June 30, | | | |
| | 2015 | 2014 | | |
| Cost of sales | \$ 52,610 | \$ 60,438 | \$ (7,828) | (13.0)% |
| Selling, general and administrative expenses | 214,826 | 194,040 | 20,786 | 10.7% |
| Research and development salaries | 102,909 | 85,162 | 17,747 | 20.8% |
| | <u>\$ 370,345</u> | <u>\$ 339,640</u> | <u>\$ 30,705</u> | <u>9.0%</u> |

The increase in total salary expenditure for the three months ended June 30, 2015 of \$30,705 is primarily due to the employment of an additional senior scientist in the Cambridge laboratory on February 2, 2015 at an additional cost for the quarter of \$30,240 and an 8% pay increase awarded to certain of our scientific personnel in September 2014.

The salary expense included in cost of sales for the three months ended June 30, 2015 decreased by \$7,828 or 13.0%. The decrease in salary expense charged to cost of sales during the current period was due to lower activity on the NIH contracts by our scientific employees.

The salary expense charged to Selling, general and administrative expenses for the three months ended June 30, 2015 increased by \$20,786 or 10.7% due to the decrease in work performed on the NIH contract and the 8% salary increases mentioned above.

Research and development salaries for the three months ended June 30, 2015 increased by \$17,747 or 20.8%, which is due to the amount of time spent by our scientists on developing cell lines for future commercialization.

Directors' fees increased by \$6,250 due to fees payable to an additional director during the current year.

Bonus expense increased by \$25,000 for the three months ended June 30, 2015. The current year charge represents an accrual for guaranteed bonuses to certain employees.

The stock option compensation charge increased by \$22,822, the charge for each period is dependent upon the number of options issued and the vesting schedule of these options, currently there is more value of unvested options than in the prior year.

Legal fees increased by \$130,166, over the prior period, the increase consists primarily of an increase in legal costs on litigation matters of \$61,440, primarily on the Eisenschenk matter, an increase in general corporate legal fees of \$28,444 due to an increase in corporate activity with respect to the reverse stock split and acquisition transactions and an increase in patent legal fees of \$40,281 as we continue to perfect our patents and we incurred legal costs on securing a second opinion on our patent position.

The increase in the legal settlement accrual is due to the award of sanctions against us in excess of the original amount provided for.

The increase in consulting fees of \$108,286 is primarily due to the increase in Investor Relations consulting expense of \$31,750, an increase in bookkeeping fees of \$6,850 due to the bookkeeper being retained for one month in the prior year, the retention of the services of a patent consultant at a cost of \$36,321 in the current year and consulting costs of \$26,000 relating to a feasibility study performed on advancing certain government contracts to drug development stage and an initial payment of \$17,800 for an overall pricing strategy study undertaken by Tufts University.

The increase in repairs and maintenance expense is immaterial.

Recruiting fees of \$17,000 was incurred in the prior year to source the Vice President of Business Development.

Rent increased by \$8,503 due to the increase in the rental cost of the Cambridge laboratory of approximately 10% per month.

Travel expenditure decreased by \$11,383 primarily due to a decrease in hotel accommodation expenditure, in the prior year, the VP of business development incurred hotel expenditure in Cambridge on commencement of her employment with the Company.

Depreciation and Amortization

We recognized depreciation expenses of \$32,823 and \$27,821 for the three months ended June 30, 2015 and 2014, respectively, the increase is due to the acquisition of laboratory equipment acquired primarily for the Cambridge laboratory. The depreciation expense is primarily made up of depreciation of our laboratory equipment, which makes up the vast majority of our capital equipment.

Amortization expense was \$12,921 for the three months ended June 30, 2015 and 2014. Amortization expenses relates to the amortization of patents assigned to us by LANS.

Other income

Other loss of \$(6,400) in the current year represents the loss realized on assets which were scrapped during the current year.

Interest expense

Interest expense totaled \$2,042 and \$3,065 for the three months ended June 30, 2015 and 2014, respectively. The interest expense has decreased due to the repayment of all debt except the Los Alamos County loan during the prior period.

Change in derivative liabilities

The variable priced warrants issued to investors and the placement agent in the prior year were exchanged for fixed price warrants effective January 31, 2015, which eliminated the requirement for a derivative liability. In the prior year, the fair value of derivative liabilities was re-assessed as of June 30, 2014 using a Black Scholes valuation model resulting in the increase of the liability by \$131,582, the movement in liability was dependent upon external market factors.

Net (loss) income

Net loss totaled \$(1,326,163) and \$(1,052,665) for the three months ended June 30, 2015 and 2014, respectively. The increase in net loss is discussed above.

Results of Operations for the six months ended June 30, 2015 and the six months ended June 30, 2014.

Revenues

We had revenues totaling \$125,811 and \$336,882 for the six months ended June 30, 2015 and 2014, respectively, a decrease of \$211,071 or 62.7%. Substantially all of our revenues have been derived from federal government contracts. Our revenue is dependent on the number of contracts we have in operation and the progress we have made on these contracts to date. We have an order backlog of \$682,500 in the form of firm fixed price government contracts. We believe that these are firm orders as there are no indications that funding will not be available and we believe that we have made satisfactory progress on the project to date. The funds available under these grants are earned by us on a percentage-of-completion basis, based on the costs we incur as a measure of the progress made on the project. We have received unfulfilled purchase orders from commercial customers amounting to \$909,000, for which we will commence work in the third quarter.

Going forward, based on our recent acquisition, we plan to market our expanded Icagen and XRpro® services to potential customers. We believe that we now have a comprehensive product offering and substantial credibility to offer a full range of products including the advantages and value propositions of the XRpro® technology. While we are optimistic about our prospects, there can be no assurance about whether or when our products will generate sufficient revenues with adequate margins in order for us to be profitable.

We are pursuing several leads for the use of our expanded product offering, including the XRpro® technology by several significant companies within the pharmaceutical and biotech industry; however there can be no assurance that such leads will be successful and result in revenue.

Cost of goods sold

Cost of goods sold totaled \$291,867 and \$342,413 for the six months ended June 30, 2015 and 2014, respectively, a decrease of \$50,546 or 14.8%. Our cost of goods sold is dependent on the progress made on each project to date. Cost of goods sold is primarily comprised of direct expenses related to providing our services under our contracts. These expenses include salary expenses directly related to research contracts, recoverable expenses incurred on contracts, the cost of outside consultants, and direct materials used on our contracts. The salary expense included in cost of sales for the six months ended June 30, 2015 and 2014 respectively was \$91,418 and \$138,538, a decrease of \$47,120 or 34.0% due to less man hours spent on the Government contracts mentioned above. For additional information regarding salary expense reference is made to the discussion of total salary expense in selling, general and administrative expenses below. Included in cost of sales for the six months ended June 30, 2015 and 2014, respectively was laboratory supplies and direct materials of \$144,772 and \$157,965, a decrease of \$13,193 or 8.4%, the decrease is primarily due to the decreased activity on Government contracts, offset by an increase in materials required to develop assays and cell lines for future commercialization efforts. During the six months ended June 30, 2015 and 2014, respectively, outside contractors' costs amounted to \$50,800 and \$42,365, the increase of \$8,435 or 19.9% is due to the hiring of technical consultants in the first quarter to improve laboratory skills, this was scaled back in the second quarter.

Gross loss

Gross loss was \$(166,056) and \$(5,531) for the six months ended June 30, 2015 and 2014, respectively, an increase of \$160,525. The increase in gross loss is directly related to lower revenues on Government contacts while cost of sales remained high due to expenditure on developing cell lines and assays for future commercialization efforts.

Selling, general and administrative expenses

Selling, general and administrative expenses totaled \$2,490,105 and \$2,028,484 for the six months ended June 30, 2015 and 2014, respectively, an increase of \$461,621 or 22.8%.

The major expenses making up selling, general and administrative expenses included the following:

| | Six months ended June 30, | | Increase/ (decrease) | Percentage Change |
|-----------------------------------|------------------------------|---------------------|-------------------------|----------------------|
| | 2015 | 2014 | | |
| Marketing and selling expenses | \$ 85,966 | \$ 14,053 | \$ 71,913 | 511.7% |
| Salary expenses | 501,381 | 338,831 | 162,550 | 48.0% |
| Research and development salaries | 177,943 | 157,565 | 20,378 | 12.9% |
| Directors fees | 110,000 | 55,000 | 55,000 | 100.0% |
| Bonus expense | 50,000 | 350,000 | (300,000) | (85.7)% |
| Stock option compensation charge | 293,425 | 247,264 | 46,161 | 18.7% |
| Legal fees | 406,626 | 266,894 | 139,732 | 52.4% |
| Legal settlement accrual | 85,000 | - | 85,000 | 100.0% |
| Consulting fees | 357,724 | 162,236 | 195,488 | 120.5% |
| Repairs and maintenance | 14,908 | 34,726 | (19,818) | (57.1)% |
| Recruiting fees | - | 48,500 | (48,500) | (100.0)% |
| Rent | 170,263 | 154,429 | 15,834 | 10.3% |
| Travel expenditure | 44,101 | 41,424 | 2,677 | 6.5% |
| | <u>\$ 2,297,337</u> | <u>\$ 1,870,922</u> | <u>\$ 426,415</u> | <u>22.8%</u> |

Marketing and selling expenses for the six months ended June 30, 2015, primarily consists of marketing support provided by a third party contractor and costs incurred to update our website. The costs of a third party contractor were not incurred in the prior year.

Total salary expenses are allocated to the various expense categories detailed below depending on the level of activity of our employees on government and commercial projects, internal research and development expenses and administrative activities. An increase in activity on projects will result in an increase in salary expense charged to cost of sales with a corresponding decrease in salary expense charged to selling, general and administrative expenses. A comparison of salary expenses is presented below.

Total salary expenditure for the six months ended June 30, 2015 and 2014, respectively was included in the following expense categories:

| | Six months ended | | Increase/ (decrease) | Percentage change |
|--|-------------------------|-------------------|---------------------------------|------------------------------|
| | June 30, | | | |
| | 2015 | 2014 | | |
| Cost of sales | \$ 91,418 | \$ 138,538 | \$ (47,120) | (34.0)% |
| Selling, general and administrative expenses | 501,381 | 338,831 | 162,550 | 48.0% |
| Research and development salaries | 177,943 | 157,565 | 20,378 | 12.9% |
| | <u>\$ 770,742</u> | <u>\$ 634,934</u> | <u>\$ 135,808</u> | <u>21.4%</u> |

The increase in total salary expenditure for the six months ended June 30, 2015 of \$135,808 is primarily due to the employment of a Vice President of Business Development on May 1, 2014 at an additional cost to the Company of \$58,333 for the six months ended June 30, 2015 and the employment of an additional senior scientist in the Cambridge laboratory on February 2, 2015 at an additional cost to the company of \$50,400 for the six months ended June 30, 2015, an increase in the vacation pay accrual of \$26,878 and an 8% pay increase awarded to certain of our scientific personnel in September 2014.

The salary expense included in cost of sales for the six months ended June 30, 2015 decreased by \$47,120 or 34.0%. The decrease in salary expense charged to cost of sales during the current period was due to lower activity on the NIH contracts by our scientific employees.

The salary expense charged to Selling, general and administrative expenses for the six months ended June 30, 2015 increased by \$162,550 or 48.0% due to the decrease in work performed on the NIH contract, the 8% salary increases mentioned above, the increase in the vacation accrual and the employment of the VP of business development in the prior year.

Research and development salaries for the six months ended June 30, 2015 increased by \$20,378 or 12.9%, which is due to the amount of time spent by our scientists on developing cell lines for future commercialization.

Directors' fees increased by \$55,000 due to fees payable to directors only commencing in April 2014.

Bonus expense decreased by \$300,000 for the six months ended June 30, 2015. The current year charge represents an accrual for guaranteed bonuses to certain employees. In the prior year, once off bonuses were paid to our Founder and Board Member and certain consultants.

The stock option compensation charge increased by \$46,161, the charge for each period is dependent upon the number of options issued and the vesting schedule of these options, currently there are more value of unvested options than in the prior year.

Legal fees increased by \$139,732, over the prior period, the increase consists primarily of a decrease in litigation costs of \$16,297, an increase in general corporate legal fees of \$110,248 due to an increase in corporate activity with respect to the fund raising completed in the first quarter, the reverse stock split and acquisition transactions, and an increase in patent legal fees of \$37,121 as we continue to perfect our patents and we incurred once-off legal costs on securing a second opinion on our patent position.

The increase in the legal settlement accrual is due to the award of sanctions against the Company in excess of the original amount provided for.

The increase in consulting fees of \$195,488 is primarily due to the increase in Investor Relations consulting expense of \$65,500, an increase in bookkeeping fees of \$17,350 due to the bookkeeper being retained for one month in the prior year, the retention of the services of a patent consultant at a cost of \$77,782 in the current year and consulting costs of \$26,000 relating to a feasibility study performed on advancing certain government contracts to drug development stage and initial fees of \$17,800 on an overall pricing strategy study undertaken by Tufts University.

Repairs and maintenance expense decreased by \$19,818 due to the replacement of an x-ray tube in one of our XRpro instruments in the prior year. These x-ray tubes have a finite life of approximately twelve to eighteen months.

Recruiting fees of \$48,500 was incurred in the prior year to source the Vice President of Business Development.

Rent increased by \$15,834 due to the increase in the rental cost of the Cambridge laboratory of approximately 10% per month.

The increase in travel expenditure is immaterial.

Depreciation and Amortization

We recognized depreciation expenses of \$65,049 and \$54,780 for the six months ended June 30, 2015 and 2014, respectively, the increase is due to the acquisition of laboratory equipment acquired primarily for the Cambridge laboratory. The depreciation expense is primarily made up of depreciation of our laboratory equipment, which makes up the vast majority of our capital equipment.

Amortization expense was \$25,842 and \$25,841 for the six months ended June 30, 2015 and 2014. Amortization expenses relates to the amortization of patents assigned to us by LANS.

Other income

Other loss of \$(6,239) in the current year primarily represents the loss realized on assets which were scrapped during the current year. The other income in the prior year of \$7,177,522 relates to the \$7,000,000 cash settlement received from the Los Alamos National Security ("LANS") and the recognition of fair value income of \$177,522 upon the return of 78,750 common shares originally issued to LANS as consideration for the license agreement we had entered into.

Interest expense

Interest expense totaled \$4,206 and \$9,632 for the six months ended June 30, 2015 and 2014, respectively. The interest expense has decreased due to the repayment of all debt except the Los Alamos County loan during the prior period.

Change in derivative liabilities

The variable priced warrants issued to investors and the placement agent in the prior year were exchanged for fixed price warrants effective January 31, 2015, which eliminated the requirement for a derivative liability. In the prior year, the fair value of derivative liabilities was re-assessed as of June 30, 2014 using a Black Scholes valuation model resulting in the increase of the liability by \$685,002, the movement in liability was dependent upon external market factors.

Net (loss) income

Net loss totaled \$(2,754,081) and net income totaled \$4,368,314 for the six months ended June 30, 2015 and 2014, respectively. The increase in net loss is discussed above.

Liquidity and Capital Resources

We have a history of annual losses from operations since inception and we have primarily funded our operations through sales of our unregistered equity securities and cash flows generated from government contracts and grants and the settlement of a lawsuit. We recently completed a private placement on December 31, 2014 and January 7, 2015 resulted in a gross cash injection of \$8,855,000 which should be sufficient to fund operations for at least the next 12 months, dependent upon the outcome of settlement discussions we are having in the Denton's matter. Should we be unsuccessful in our discussions or not generate anticipated revenue, we may need to raise additional funding through equity issues to fulfill our commercialization objectives.

As of June 30, 2015 our Company had cash totaling \$7,525,635, other current assets totaling \$382,286 and total assets of \$8,868,211. We had total current liabilities of \$1,331,964 and a net working capital surplus of \$6,575,957. Total liabilities were \$1,456,521 and the Series A convertible redeemable preferred stock totaled \$133,350 resulting in a stockholders' equity of \$7,278,340.

Should we not achieve our forecasted operating results or should strategic opportunities present themselves such that additional financial resources would present attractive investing opportunities for our company, we may decide in the future to issue debt or sell our company's equity securities in order to raise additional cash. We cannot provide any assurances as to whether we will be able to secure any additional financing, or the terms of any such financing transaction if one were to occur.

As of June 30, 2015, we owed \$159,978 in accordance with the terms of a Project Participation Agreement with the Incorporated County of Los Alamos that we entered into in September 2006. The loan bears interest at a rate of 5% per annum, is for a thirteen year term, with monthly repayments of \$3,547 that commenced on September 21, 2009.

An analysis of our cash flows from operating, investing and financing activities for the six months ended June 30, 2015 and 2014 is provided below:

| | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|---|---|---|
| Net cash (used in) provided by operating activities | \$ (2,344,863) | \$ 3,958,413 |
| Net cash used in investing activities | (58,549) | (44,356) |
| Net cash provided by (used in) financing activities | <u>3,456,654</u> | <u>(263,409)</u> |
| Net increase in cash and cash equivalents | <u>\$ 1,053,242</u> | <u>\$ 3,650,648</u> |

Net cash (used in) provided by operating activities was \$(2,344,863) and \$3,958,413 for the six months ended June 30, 2015 and 2014, respectively. The decrease in cash provided by operating activities was primarily due to the following:

| | Six months ended June 30, | | Increase/ (decrease) | Percentage change |
|---|--------------------------------------|---------------------|---------------------------------|------------------------------|
| | <u>2015</u> | <u>2014</u> | | |
| Net (loss) income | \$ (2,754,081) | \$ 4,368,314 | \$ (7,122,395) | (163.1)% |
| Adjustments for non-cash items | 475,555 | 834,902 | (359,347) | (43.0)% |
| Changes in operating assets and liabilities | <u>(66,337)</u> | <u>(1,244,803)</u> | <u>1,178,466</u> | <u>94.7%</u> |
| | <u>\$ (2,344,863)</u> | <u>\$ 3,958,413</u> | <u>\$ 6,303,276</u> | <u>(159.2)%</u> |

The increase in net loss is discussed under net (loss) income in the results of operations for the six months ended June 30, 2015 and 2014, respectively, the prior year result includes legal settlement proceeds of \$5,502,000, after deduction of preliminary legal expenses and other associated expenses.

The change in adjustments for non-cash items is primarily due to the increase in the fair value of derivative liabilities of \$685,002 in the prior period; offset by the gain on cancellation of shares in the LANS legal settlement of \$(177,522) in the prior period; and the increase in the legal settlement accrual of \$85,000 in the current year.

The increase in operating assets and liabilities is primarily due to the payment of legal bills accrued on the LANS matter in the prior year, resulting in a net movement of \$1,220,374 in accounts payable balances; the payment of a deposit for bond security costs of \$209,255 and the increase in accrued liabilities of \$174,783, which includes a provision for expected sanction costs on the Eisenschenk matter of \$265,000.

Net cash used in investing activities was \$58,549 and \$44,356 for the six months ended June 30, 2015 and 2014, respectively. This was primarily due to the purchase of laboratory equipment for the Cambridge laboratory.

Net cash provided by (used in) financing activities was \$3,456,654 and \$(263,409) for the six months ended June 30, 2015 and 2014, respectively. The cash provided by financing activities in the current year is primarily due to the net proceeds raised on the second closing of the recently concluded private placement of \$3,521,592, after deducting share issue expenses of \$314,541; and the payment of a dividend of \$48,300 to the Series A stockholder. In the prior year, the movement represented the payment of principal on loan balances and the repayment of a term loan in full.

Capital Expenditures

Our current plan is to purchase equipment to ensure that our recent acquisition of Icagen functions efficiently and that we are able to support the commercialization efforts of the Company.

Commitments

In terms of the asset purchase agreement entered into on July 1, 2015, with Icagen, Inc., a wholly owned subsidiary of Pfizer Inc. we are required to make additional purchase price payments of \$875,000 as follows:

| | <u>Amount</u> |
|-------------------|-------------------|
| September 1, 2015 | \$ 125,000 |
| December 1, 2015 | 125,000 |
| March 1, 2016 | 125,000 |
| July 1, 2017 | 500,000 |
| Total | <u>\$ 875,000</u> |

We are also obligated to make earn out payment of 10% of total Group revenues, up to a maximum of \$10,000,000, commencing on revenues generated from January 1, 2017, which payments are to be made 60 days after each quarter end.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Please refer Note 2 Significant Accounting Policies in the notes to unaudited condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

The recent Accounting Pronouncements are fully disclosed in note 2 to our unaudited condensed consolidated financial statements.

Management does not believe that any other recently issued but not yet effective accounting pronouncements, if adopted, would have an effect on the accompanying unaudited condensed consolidated financial statements.

Off-Balance Sheet Arrangements

We do not maintain off-balance sheet arrangements nor do we participate in non-exchange traded contracts requiring fair value accounting treatment.

Inflation

The effect of inflation on our revenue and operating results was not significant.

Climate Change

We believe that neither climate change, nor governmental regulations related to climate change, have had, or are expected to have, any material effect on our operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

The Company has adopted and maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports filed under the Exchange Act, such as this Form 10-Q, is collected, recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. The Company's disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to management to allow timely decisions regarding required disclosure. As required under Exchange Act Rule 13a-15, the Company's management, including the Principal Executive Officer and the Principal Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO and CFO concluded that due to a lack of segregation of duties the Company's disclosure controls and procedures are not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Subject to receipt of additional financing or revenue generated from operations, the Company intends to retain additional individuals to remedy the ineffective controls.

Changes in Internal Control

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Set forth below is a factual description of the status of Company's legal proceedings. It should not be misconstrued as the Company's acquiescence in any claimant's position with respect to such litigation. The Company continues to believe that the claims made against it do not have any merit whatsoever and intends to vigorously defend itself.

There have been no material litigation developments since the filing of our Annual Report on 10-K for the year ended December 31, 2014 other than as follows:

Bellows' Dividend Litigation

On March 16, 2015, the Company filed a second motion to disqualify the Bellows Law Group, P.C and Bellows & Bellows, P.C. On May 21, 2015, following oral arguments, the Court denied the Company's second motion to disqualify the Bellows' law Group PC and Bellows & Bellows PC.

On March 23, 2015, the Company filed a motion to dismiss Counts II-IV of the first amended complaint. On August 6, 2015, following oral arguments, the Court denied the Company's motion to dismiss Counts II-IV of the first amended complaint.

On July 2, 2015, Bellows filed a motion to supplement the record and take judicial notice of orders entered in a case brought by the Company in New Mexico against the Estate of Sigmund Eisenschenk and in probate proceedings to administer the Estate of Sigmund Eisenschenk in Illinois. On July 27, 2015, Bellows filed a revised motion to supplement the record and take judicial notice of orders entered into in a case brought by the Company in New Mexico against the Estate of Sigmund Eisenschenk in Illinois. On August 6, 2015, Bellows withdrew his motion for leave to supplement the record.

On August 6, 2015, the Court granted Bellows leave to file a second amended complaint.

Bellows' Redemption Litigation

On August 25, 2014, Joel Bellows filed a complaint against the Company and Benjamin Warner in the Chancery Division of the Circuit Court of Cook County, Illinois. In the complaint, Bellows alleges that he is entitled to redeem his Series A cumulative preferred stock at a price of \$7.41 pursuant to the terms of the Company's June 24, 2011, private placement memorandum. Bellows alleges that the Company and Warner violated his rights under the private placement memorandum by unreasonably and vexatiously denying his request for redemption.

The hearing on Defendants' motion to dismiss Counts I, II and III of the complaint was heard on June 22, 2015. On July 15, 2015, the Court issued a written ruling denying the Company and Warner's motion to dismiss Counts I, II and III of the complaint.

The hearing on the Defendants motion to dismiss Count IV of the complaint (breach of fiduciary duty) was continued on the Court's motion and the Court requested that the parties submit supplemental briefs to address (a) whether the Court should apply Delaware or Illinois law in evaluating the request to dismiss Count IV of the complaint, and (b) whether paragraph 19 of the Settlement Agreement is a choice of law or choice of forum provision.

Litigation with estate of Sigmund Eisenschenk

On March 27, 2015, the Company and Crane filed a motion to dismiss Counts I and II of the Petition for Citation to Recover and to Stay Counts IV-VI.

On March 31, 2015, American Millings, QTM Ventures LLC and the supervised administrator, Peter Schmiedel, filed petitions to approve attorneys' fees and costs in the amount of \$158,816.97, \$80,603.75 and \$37,080.00, respectively. On May 5, 2015, the Company filed its opposition to the fee petitions.

On April 14, 2015, the Company filed a notice of appeal from (1) paragraphs 1 through 6 of a March 16, 2015, order of the Probate Division of the Circuit Court of Cook County which amongst other things granted in part the petition to vacate certain claims filed by Lyon and Lane against the estate and (2) paragraphs 1 through 3 of a March 16, 2015 order which amongst other things granted summary judgment against the Company in favor of American Milling LP and supervised administrator Peter Schmiedel and finding that the estate owns no less than 177,500 shares of the Company's stock (the 177,500 shares effected by the reverse split will amount to 88,750 shares post reverse split which took place on March 25, 2015).

On April 14, 2015, the Company filed a motion pursuant to Illinois Supreme Court Rule 305 requesting a stay of enforcement of the orders of March 16, 2015, pending resolution of the appeal. The Company offered to place 177,500 shares of stock in escrow (the 177,500 shares effected by the reverse split will amount to 88,750 shares post reverse split which took place on March 25, 2015) as security in lieu of a bond pending resolution of the appeal. The Estate opposed the Company's request to deposit shares as collateral and requested that the Court require the posting of a money bond. On June 2, 2015, the Circuit Court denied the Company's request to post shares as collateral in lieu of a money bond to secure a stay of enforcement of the orders of March 16, 2015.



On May 26, 2015, following oral arguments on May 19, 2015, the Court entered an order that amongst things found the Company jointly and severally liable for sanctions under Illinois Supreme Court Rule 137 and ordered the Company to remit \$97,500 to American Milling LP, \$24,050 to supervised administrator Peter Schmiedel and \$50,700 to QTM Ventures LLC.

On May 26, 2015, following oral arguments on May 19, 2015, the Court denied the Company's request for a stay of Counts III-VI pending resolution of a declaratory judgment action filed by the Company in New Mexico. The Court also denied the Company's request for a stay pending the outcome of the Company's April 14, 2015, notice of appeal.

On June 8, 2015, the Company filed a notice of appeal from (1) an order of the Circuit Court dated March 16, 2015, that amongst other things awarded sanctions under Supreme Court Rule 137 in favor of American Milling LP, QTM Ventures LLC and supervised administrator Peter Schmiedel, (2) paragraphs 1 through 3 of an order of the Circuit Court dated March 16, 2015, that amongst other things granted summary judgment against the Company in favor of supervised administrator Peter Schmiedel, and (3) an order of the Circuit Court dated May 26, 2015, that amongst other things determined the amount of attorneys' fees the Company must pay to American Milling LP, QTM Ventures LLC and supervised administrator Peter Schmiedel.

On June 8, 2015, the Company filed a notice of appeal from an order of the Circuit Court dated May 26, 2015, which amongst other things denied the Company's motion to stay Counts III-VI.

On July 13, 2015, the probate court granted QTM's motion for a turnover order and ordered the Company to turnover 177,500 shares of stock to the Estate.

On July 20, 2015, the Court approved and Caldera posted an appeal bond in the amount of \$300,000 to secure the stay of enforcement of the orders of March 16, 2015 and May 26, 2015 that awarded sanctions against the Company in favor of American Milling, QTM Ventures and supervised administrator Peter Schmiedel.

On July 20, 2015, the Court granted QTM's request to file an amended citation by July 24, 2015. On July 24, 2015, QTM filed a motion for an extension of time to file its amended citation. On August 10, 2015, the Court granted QTM a final extension of time until August 24, 2015 to file an amended citation.

New Mexico Litigation Against the Estate of Eisenschenk

On July 16, 2015, the Company's action for declaratory relief against the Estate of Eisenschenk proceeded to trial in Santé Fe, New Mexico. In its complaint for declaratory relief, the Company sought amongst other things a declaration that (1) the Estate owns no shares of the capital stock of the Company or any options or rights thereto, or any ownership interest in the Company, (2) all of Eisenschenk's non-vested shares were properly recalled by reason of Eisenschenk's failure to meet the vesting requirements in the formation agreement Financing Term Sheet, (3) all of Eisenschenk's vested shares were properly and validly assigned and transferred to the Company by virtue of the Company's lawful exercise of its rights as a creditor-assignee under a contract and Eisenschenk's uncured breach thereof; and (4) a certificate bearing Eisenschenk's name is null and void having never been completed, authorized for issuance, issued or transferred to Eisenschenk. Following a bench trial before Judge Francis Mathew, the Court denied the Company's request for declaratory relief and dismissed the Company's complaint for declaratory relief without prejudice, further ruling that the Company's claims could be brought in the Circuit Court of Cook County, or any other Court of competent jurisdiction in Illinois.

Item 1A. Risk Factors.

Risks Related to the Company

We have a history of losses and there can be no assurance that we will generate or sustain positive earnings.

For the six months ended June 30, 2015, we had a net loss of \$(2,754,081), for the year ended December 31, 2014 we had a net income of \$49,517, primarily due to the settlement of the LANS matter, discussed above, and for the year ended December 31, 2013, we had a net loss of \$(3,694,786). We cannot be certain that our business strategy will ever be successful. Future revenues and profits, if any, will depend upon various factors, including the success, if any, of our expansion plans for the lease of our instruments and services to biotechnical and pharmaceutical customers, marketability of our instruments and services, our ability to maintain favorable relations with manufacturers and customers, and general economic conditions. There is no assurance that we can operate profitably or that we will successfully implement our plans. There can be no assurance that we will ever generate positive earnings.

Substantially all of our net revenue has been generated from services provided to governmental agencies. If such agencies were to terminate their existing agreement with us or no longer continue to use our services, our net revenue and results of operations would be adversely affected.

To date we have derived substantially all of our revenue from services we performed for two governmental agencies. For the six months ended June 30, 2015, substantially all of our revenue was generated from government contract, for the year ended December 31, 2014, the majority of our revenue was generated from government contacts (84%), and the remaining 16% was generated from commercial contracts recently undertaken; and for the year ended December 31, 2013, substantially all of our revenue was derived from two different research projects for the same two governmental agencies. For the year ended December 31, 2012 substantially all of our revenue was derived from three different research projects for the same two governmental agencies. For the year ended December 31, 2011, ninety six percent (96%) of our revenue was derived from six different research projects for the same two governmental agencies. As of the date hereof we have two existing contracts with the National Institutes of Health (“NIH”) pursuant to which we are continuing to perform services.

We were awarded a \$1,000,000 grant from the NIH on August 24, 2011 which was fully utilized and expired on July 31, 2012. An additional \$1,000,000 was made available for us to invoice our project time and expenses against on August 2, 2012 which was fully utilized and expired on July 31, 2013, a further \$1,000,000 (of which we have received \$875,500 to date) was made available to us on July 9, 2013 for the period August 1, 2013 to July 2014, recently extended to August 31, 2015, depending on availability of government funding and satisfactory progress made on the project. However, under NIH policies the contracts can be terminated in whole or in part by the government for convenience at any time and in such case we would be entitled to payment of our costs incurred in the performance of the work terminated. If there were to be a decline in the demand for our services from governmental agencies, or the two governmental agencies from which we have received funding were required to reduce spending, our net revenue would be significantly impacted, which would negatively affect our business, financial condition and results of operations and may affect our ability to continue operations.

We were awarded Contract number 1R43AI091186-01A1 with the National Institutes of Health; to develop Radioactive Cesium decorporation Agents on June 23, 2014 for an amount of \$600,000 operative from July 1, 2014 to June 30, 2016. We have received \$30,000 under this contract to date with \$570,000 still available under the project.

If we cannot establish profitable operations, we will need to raise additional capital to fully implement our business plan, which may not be available on commercially reasonable terms, or at all, and which may dilute your investment.

We incurred a net loss of \$(2,754,081) for the six months ended June 30, 2015 and generated a net income of \$49,517 for the year ended December 31, 2014 primarily due to the settlement of the LANS matter as discussed above. We incurred a net loss of \$(3,694,786) for the year ended December 31, 2013. Achieving and sustaining profitability will require us to increase our revenues and manage our product, operating and administrative expenses. We cannot guarantee that we will be successful in achieving profitability. Pursuant to the terms of the APA, we are required to pay Icagen, Inc. an additional \$375,000 over the next three quarters commencing September 1, 2015 and \$500,000 on July 1, 2017. In addition, we assumed certain liabilities of Icagen, Inc. of approximately \$35,000 and agreed to retain eighteen employees of Icagen, Inc at an estimated cost of \$3,100,000 per annum, for at least two years. If we are unable to generate sufficient revenues to pay our expenses and our existing sources of cash and cash flows are otherwise insufficient to fund our activities, we will need to raise additional funds to continue our operations at their current level and in order to fully implement our business plan. We do not have any commitments in place for additional funds. If needed, additional funds may not be available on favorable terms, or at all. As of the date hereof, we expect that our current cash and revenues generated from services, our private placement financings and the settlement of the LANS litigation will provide us with enough funds to continue our operations at our current level for at least an additional 12 months. Unless we raise additional funds or increase revenues we will be forced to curtail our operations and limit our marketing expenditures. Furthermore, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. If we are unsuccessful in achieving profitability and we cannot obtain additional funds on commercially reasonable terms or at all, we may be required to curtail significantly or cease our operations, which could result in the loss of all of your investment in our stock.

We depend significantly on our relationship with our third party collaborators.

We are currently a party to an MSSA with Pfizer to perform ion channel screening and other contract research for Pfizer Inc. Pfizer Inc has guaranteed revenue of \$1,000,000 for each of the first two years of the agreement, which based on current revenue will represent a substantial portion of our revenue. Our collaboration with Pfizer or future collaborations we may enter into may not be scientifically or commercially successful.

Collaborations with pharmaceutical companies and other third parties often are terminated or allowed to expire by the other party. A termination or expiration of our current collaboration with Pfizer or any potential future collaborations would adversely affect us financially and could harm our business reputation.

We may not be able to utilize our tax net operating loss carry-forwards to offset future taxable income.

At December 31, 2014 we had approximately \$5,523,000 in tax net operating loss carry-forwards available to offset future taxable income, thereby potentially reducing our future tax expense/liabilities. However, these tax net operating loss carry-forwards may be limited in accordance with IRC Section 382 following a more than 50 percentage point change in ownership, in aggregate during any three year look-back period. This potential limitation on our ability to use our tax net operating loss carry-forwards to offset future taxable income could result in increased tax expense/liabilities and decreased net earnings. These loss carry-forwards expire through 2034 if unused.

There is uncertainty as to market acceptance of our technology and products.

Our business has been solely dependent upon revenue derived from government agencies for services performed by us. We have derived only minimal revenue from the provision of our analyses services to biotech and pharmaceutical companies and there can be no assurance that the future revenue received from these customers will increase. Although our XRpro® instruments is commercially available, we have not yet leased our XRpro® instruments to third parties nor have any drug candidates that we discover while conducting our chemical analyses been approved by the FDA or commercialized from our technology. There can be no assurance that our XRpro® instruments will be accepted in the market or that our commercialization efforts will be successful. In addition, although our recent acquisition offers a full complement of services to a broader pharmaceutical sector, there can be no assurance that there will be market acceptance of these services.

The life sciences research instrumentation market is characterized by rapid technological change and frequent new product introductions. Our future success may depend on our ability to enhance our current products and to develop and introduce, on a timely basis, new products that address the evolving needs of our customers. We may experience difficulties or delays in our development efforts with respect to new products and the provision of our services, and we may not ultimately be successful in developing or commercializing them, which would harm our business. Any significant delay in releasing products or providing services could cause our revenues to suffer, adversely affect our reputation, give a competitor a first-to-market advantage or cause a competitor to achieve greater market share. In addition, our future success depends on our continued ability to develop new applications for our existing products and continuing to provide our current services. If we are not able to complete the development of these applications, or if we experience difficulties or delays, we may lose our current customers and may not be able to attract new customers, which could seriously harm our business and our future growth prospects.

We rely heavily on a single source for a major part of our product, and the partial or complete loss of this supplier could cause customer supply or production delays and a substantial loss of revenues.

We rely on one outside vendor to manufacture substantial portions of critical hardware that will be used with or included in our XRpro® instruments. We have an agreement with our equipment supplier for an indefinite period of time to develop a product that incorporates our technology with a product already produced by them. Our agreement provides that we will not develop, manufacture, or distribute products that compete directly or indirectly with the product that is supplied by them and incorporated into the XRPro® instruments during the term of the agreement and for a period of three years subsequent to the termination of the agreement if we should terminate the agreement for any reason. Our agreement may be terminated by either party without cause upon six months prior written notice. Our supplier is located in Berlin, Germany and its ability to perform the agreement will be affected by the quality controls in Germany, which may be different than those in the United States, as well as the regional or worldwide economic, political or governmental conditions. Disruptions in international trade and finance or in transportation may have a material adverse effect on our business, financial condition and results of operation. Any significant disruption in our operations for any reason, such as regulatory requirements, scheduling delays, quality control problems, loss of certifications, power interruptions, fires, hurricanes, war or threats of terrorism, labor strikes, contract disputes, could adversely affect our sales and customer relationships. There can be no assurances that a third party contract manufacturer will be able to meet the design specifications of our technology.

Our reliance on one manufacturer is expected to continue and involve several other risks including limited control over the availability of components, delivery schedules, pricing and product quality. We may experience delays, additional expenses and lost sales because of our dependency upon a single manufacturer. Although we have no reason to believe that our supplier will be unable to supply us with needed products, if they were to be unable to supply us with adequate equipment in a timely manner, or if we are unable to locate a suitable alternative supplier or at favorable terms, our business could be materially adversely impacted. While we believe alternative manufacturers exist, we have not specifically identified any alternative manufacturer and may not be able to replace our equipment supplier if we need to in a timely fashion.

Our reliance on a sole supplier involves several risks, including the following:

- our supplier of required parts may cease or interrupt production or otherwise fail to supply us with an adequate supply of required parts for a number of reasons, including contractual disputes with our supplier or adverse financial developments at or affecting the supplier;
- we have reduced control over the pricing of third party-supplied materials, and our supplier may be unable or unwilling to supply us with required materials on commercially acceptable terms, or at all;
- we have reduced control over the timely delivery of third party-supplied materials; and
- our supplier may be unable to develop technologically advanced products to support our growth and development of new systems.

In addition, in the event of a breach of law by our equipment supplier or a breach of a contractual obligation that has an adverse effect upon our operations, we will have little or no recourse because all of our manufacturer's assets are located in Germany. In addition, it may not be possible to effect service of process in Germany and uncertainty exists as to whether the courts in Germany would recognize or enforce judgments of U.S. courts obtained against a German company.

We must expend a significant amount of time and resources to develop new products, and if these products do not achieve commercial acceptance, our operating results may suffer.

We expect to spend a significant amount of time and resources to develop new products and refine existing products, and have spent significant time and money developing our XRpro® instruments. We commenced development of our XRpro® instruments in the year 2006 and since then have developed four enhanced versions of our original instrument; each enhancement was developed over an approximate two year period of time. We enhance our XRpro® instruments on a regular basis, including recent improvements to the throughput capabilities of the instrument, increasing production efficiency. We may also be required to make modifications or enhancements at the request of our customers. Our research and development expense for the three months ended March 31, 2015 was \$75,034 and for the year ended December 31, 2014 was approximately \$309,747, most of which was used to develop assays for commercial applications. In light of the long product development cycles inherent in our industry, any developmental expenditure will typically be made well in advance of the prospect of deriving revenues from the sale of new products. Our ability to commercially introduce and successfully market new products will be subject to a wide variety of challenges during this development cycle that could delay introduction of these products. In addition, since our potential customers are not expected to be obligated by long-term contracts to purchase our products, our anticipated product orders may not materialize, or orders that do materialize may be canceled. As a result, if we do not achieve market acceptance of new products, our operating results will suffer. Our products may also be priced higher than competitive products, which may impair commercial acceptance. We cannot predict whether new products that we expect to introduce will achieve commercial acceptance.

Our limited marketing capability may limit our ability to gain commercial acceptance of our XRpro® instrument and cause our future operating results to suffer.

Our future operating results will suffer if our products do not achieve commercial acceptance. Our ability to gain commercial acceptance of our XRpro® product will be limited by our marketing capability. We have recently increased our financial resources, and intend improving our sales efforts by hiring appropriate resources on our XRpro® products and our marketing efforts. We have not sold or leased any XRpro® instruments and to date no one other than us has used the XRpro® instrument to perform analytical services.

Our Founder and Board Member beneficially owns a substantial portion of our outstanding Common Stock, which may limit your ability and the ability of our other stockholders, whether acting alone or together, to propose or direct the management or overall direction of our company.

The concentration of ownership of our stock could discourage or prevent a potential takeover of our company that might otherwise result in an investor receiving a premium over the market price for his shares. Our Founder and Board Member beneficially owns 1,602,403 shares of our Common Stock, representing 24.3% of our outstanding shares of Common Stock. In addition, our directors as a group beneficially own 2,938,288 shares of our Common Stock, representing 40.7% of our outstanding shares of Common Stock. Accordingly, our Founder and Board Member alone and together with our directors would have significant influence over the election of our directors and the approval of actions for which the approval of our stockholders is required. If you acquire shares of our securities, you may have no effective voice in the management of our Company. Such significant influence over control of our Company may adversely affect the price of our Common Stock. Our principal stockholder as well as our board of directors may be able to significantly influence matters requiring approval by our stockholders, including the election of directors, as well as mergers or other business combinations which require the vote of a majority of our outstanding shares. Such significant influence may also make it difficult for our stockholders to receive a premium for their shares of our Common Stock in the event we merge with a third party or enter into different transactions which require stockholder approval. These provisions could also limit the price that investors might be willing to pay in the future for shares of our Common Stock.

If we deliver products or services with defects, our credibility will be harmed and the sales and market acceptance of our products will decrease.

Our products and services are complex and may at times contain errors, defects and bugs when introduced. If in the future we deliver products or services with errors, defects or bugs, our credibility and the market acceptance and sales of our products would be harmed. Further, if our products or services contain errors, defects or bugs, we may be required to expend significant capital and resources to alleviate such problems. Defects could also lead to product liability as a result of product liability lawsuits against us or against our customers. We may agree to indemnify our customers in some circumstances against liability arising from defects in our products or services. In the event of a successful product liability claim, we could be obligated to pay significant damages.

Most of our potential customers are from the pharmaceutical and biotechnology sector and are subject to risks faced by those industries.

We expect to derive a significant portion of our future revenues from sales to customers in the pharmaceutical and biotechnology sector, which includes governments and private companies. We expect a substantial part of our future revenue to be derived from pharmaceutical companies, including Pfizer. As a result, we will be subject to risks and uncertainties that affect the pharmaceutical and biotechnology industries, such as availability of capital and reduction and delays in research and development expenditures by companies in these industries, pricing pressures as third-party payers continue challenging the pricing of medical products and services, government regulation, and the uncertainty resulting from technological change.

In addition, our future revenues may be adversely affected by the ongoing consolidation in the pharmaceutical and biotechnology industries, which would reduce the number of our potential customers. Furthermore, we cannot assure you that the pharmaceutical and biotechnology companies that may be our customers will not develop their own competing products or capabilities, or choose our competitors' technology instead of our technology.

Many of our current and potential competitors have significantly greater resources than we do, and increased competition could impair sales of our products and services.

We operate in a highly competitive industry and face competition from companies that design, manufacture and market instruments for use in the life sciences research industry, from genomic, pharmaceutical, biotechnology and diagnostic companies and from academic and research institutions and government or other publicly-funded agencies, both in the United States and elsewhere. We may not be able to compete effectively with all of these competitors. Many of these companies and institutions have greater financial, engineering, manufacturing, marketing and customer support resources than we do. As a result, our competitors may be able to respond more quickly to new or emerging technologies or market developments by devoting greater resources to the development, promotion and sale of products, which could impair sales of our products. Moreover, there has been significant merger and acquisition activity among our competitors and potential competitors. These transactions by our competitors and potential competitors may provide them with a competitive advantage over us by enabling them to rapidly expand their product offerings and service capabilities to meet a broader range of customer needs. Many of our potential customers are large companies that require global support and service, which may be easier for our larger competitors to provide.

We believe that competition within the markets we serve is primarily driven by the need for innovative products that address the needs of customers. We attempt to counter competition by seeking to develop new products and provide quality, cost-effective products and services that meet customers' needs. We cannot assure you, however, that we will be able to successfully develop new products or that our existing or new products and services will adequately meet our potential customers' needs.

Rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition and frequent new product and service introductions characterize the markets for our products. To remain competitive, we may be required to develop new products and periodically enhance our existing products in a timely manner. We may face increased competition as new companies enter the market with new technologies that compete with our products and future products, and our services and future services. We cannot assure you that one or more of our competitors will not succeed in developing or marketing technologies products or services that are more effective or commercially attractive than our products or future products, or our services or future services, or that would render our technologies and products obsolete or uneconomical. Our future success will depend in large part on our ability to maintain a competitive position with respect to our current and future technologies, which we may not be able to do. In addition, delays in the launch of our new products or the provision of our services may result in loss of market share due to our customers' purchases of competitors' products or services during any delay.

We depend on our key personnel, the loss of whom would impair our ability to compete.

We are highly dependent on the employment services of key management, engineering and scientific staff. The loss of the service of any of these persons could seriously harm our product development and commercialization efforts. In addition, research, product development and commercialization will require additional skilled personnel in areas such as chemistry and biology, and software and electronic engineering and recruitment and retention of personnel, particularly for employees with technical expertise, is uncertain. If we are unable to hire, train and retain a sufficient number of qualified employees, our ability to conduct and expand our business could be seriously reduced. The inability to retain and hire qualified personnel could also hinder the planned expansion of our business and may result in us relocating some or all of our operations.

We have initiated and may in the future need to initiate lawsuits to protect or enforce our patents, which would be expensive and, if we lose, may cause us to lose some of our intellectual property rights, which would reduce our ability to compete in the market.

Our success will depend in part upon protecting our technology from infringement, misappropriation, duplication and discovery, and avoiding infringement and misappropriation of third party rights. We intend to rely, in part, on a combination of patent and contract law to protect our technology in the United States and abroad.

The risks and uncertainties that we face with respect to our patents and other proprietary rights include the following:

- the pending patent applications we have filed or to which we have exclusive rights may not result in issued patents or may take longer than we expect to result in issued patents;
- the claims of any patents which are issued may not provide meaningful protection;
- we may not be able to develop additional proprietary technologies that are patentable;
- the patents licensed or issued to us or our customers may not provide a competitive advantage;
- other companies may challenge patents licensed or issued to us or our customers;
- patents issued to other companies may harm our ability to do business;
- other companies may independently develop similar or alternative technologies or duplicate our technologies; and
- other companies may design around the technologies we have licensed or developed.

There can be no assurance that any of our patent applications or licensed patent applications will issue or that any patents that may issue will be valid and enforceable. We may not be successful in securing or maintaining proprietary patent protection for our products and technologies that we develop or license. In addition, our competitors may develop products similar to ours using methods and technologies that are beyond the scope of our intellectual property protection, which could reduce our anticipated sales. While some of our products have proprietary patent protection, a challenge to these patents can subject us to expensive litigation. Litigation concerning patents, other forms of intellectual property, and proprietary technology is becoming more widespread and can be protracted and expensive and distract management and other personnel from performing their duties.

We also rely upon trade secrets, unpatented proprietary know-how, and continuing technological innovation to develop a competitive position. If these measures do not protect our rights, third parties could use our technology, and our ability to compete in the market would be reduced. In addition, employees, consultants and others who participate in the development of our products may breach their agreements with us regarding our intellectual property, and we may not have adequate remedies for the breach. We also may not be able to effectively protect our intellectual property rights in some foreign countries and our trade secrets may become known through other means not currently foreseen by us. We cannot assure you that others will not independently develop substantially equivalent proprietary technology and techniques or otherwise gain access to our trade secrets and technology, or that we can adequately protect our trade secrets and technology.

There can be no assurance that third parties will not assert infringement or other claims against us with respect to rights to any of our products. Litigation to protect and defend the rights to our licensed technology or to determine the validity of any third party claims could result in significant expense to us and divert the efforts of our technical and management personnel, whether or not such litigation is determined in our favor. If we determine that additional rights are necessary for the development of our product(s) and further determine that a license to additional third party rights is needed, there can be no assurance that we can obtain a license from the relevant party or parties on commercially reasonable terms, if at all. We could be sued for infringing patents or other intellectual property that purportedly cover products and/or methods of using such products held by persons other than us. Litigation arising from an alleged infringement could result in removal from the market, or a substantial delay in, or prevention of, the introduction of our products, any of which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Additionally, in order to protect or enforce our patent rights, we may initiate patent litigation against third parties, such as infringement suits or interference proceedings. Litigation may be necessary to:

- assert claims of infringement;
- enforce our patents;
- protect our trade secrets or know-how; or
- determine the enforceability, scope and validity of the proprietary rights of others.

Lawsuits could be expensive, take significant time and divert management's attention from other business concerns. They would put our licensed patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing. We may also provoke third parties to assert claims against us. Patent law relating to the scope of claims in the technology fields in which we operate is still evolving and, consequently, patent positions in our industry are generally uncertain. If initiated, we cannot assure you that we would prevail in any of these suits or that the damages or other remedies awarded, if any, would be commercially valuable. During the course of these suits, there could be public announcements of the results of hearings, motions and other interim proceedings or developments in the litigation. If securities analysts or investors were to perceive any of these results to be negative, our stock price could decline.

We have claims and lawsuits against us that may result in material adverse outcomes.

On March 16, 2015, the Circuit Court in Cook County, Illinois ruled against us and held that the Estate of Sigmund Eisenschenk owns no less than 177,500 shares of our stock, effectively nullifying the original recall by the Company on December 23, 2011 (the 177,500 shares effected by the reverse split will amount to 88,750 shares post reverse split which took place on March 25, 2015). The Court further awarded sanctions against us in an amount not yet determined. The Court has yet to rule on certain other claims made by the Estate, which relate to a further 472,500 shares of our stock, which were originally recalled by the Company on September 19, 2010 (the 472,500 shares effected by the reverse split will amount to 236,250 shares post reverse split which took place on March 25, 2015). We are also subject to other claims and other lawsuits in which adverse outcomes could result in significant monetary damages. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

We may incur substantial liabilities and may be required to limit commercialization of our products in response to product liability lawsuits.

We could be the subject of complaints or litigation from customers alleging product quality or operational concerns. Litigation or adverse publicity resulting from these allegations could materially and adversely affect our business, regardless of whether the allegations are valid or whether we are liable. We currently do not have product liability insurance coverage, and even if there was such coverage, there would be no assurance that such coverage would be sufficient to properly protect us. Further, claims of this type, whether substantiated or not, may divert our financial and management resources from revenue generating activities and the business operation.

We may be subject to the risks of doing business internationally.

Although we have not successfully sold any of our products yet, we currently offer our products both in the United States and outside of the United States, and we intend to manufacture products at our equipment suppliers' facility in Germany once we receive purchase orders. Because we intend to do so, our business is subject to risks associated with doing business internationally, including:

- trade restrictions and changes in tariffs;
- the impact of business cycles and downturns in economies outside of the United States;
- unexpected changes in regulatory requirements that may limit our ability to export our products or sell into particular jurisdictions;
- import and export license requirements and restrictions;
- difficulties in maintaining effective communications with employees and customers due to distance, language and cultural barriers;
- disruptions in international transport or delivery;
- difficulties in protecting our intellectual property rights, particularly in countries where the laws and practices do not protect proprietary rights to as great an extent as do the laws and practices of the United States;
- difficulties in enforcing agreements through non-U.S. legal systems;
- longer payment cycles and difficulties in collecting receivables; and
- potentially adverse tax consequences.

If any of these risks materialize, our international sales could decrease and our foreign operations could suffer.

We are an “emerging growth company,” and any decision on our part to comply with certain reduced disclosure requirements applicable to emerging growth companies could make our Common Stock less attractive to investors.

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act enacted in April 2012, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could remain an emerging growth company until the earliest of: (i) the last day of the fiscal year in which we have total annual gross revenues of \$1 billion or more; (ii) the last day of our fiscal year following the fifth anniversary of the date of our first sale of common equity securities pursuant to an effective registration statement which has not yet occurred; (iii) the date on which we have issued more than \$1 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer. We cannot predict if investors will find our Common Stock less attractive if we choose to rely on these exemptions. If some investors find our Common Stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our Common Stock and our stock price may be more volatile.

Under Section 107(b) of the Jumpstart Our Business Startups Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

As a result of our being a public company, we are subject to additional reporting and corporate governance requirements that require additional management time, resources and expense.

We are obligated to file with the SEC annual and quarterly information and other reports that are specified in the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We are also subject to other reporting and corporate governance requirements under the Sarbanes-Oxley Act of 2002, as amended, and the rules and regulations promulgated thereunder, all of which impose significant compliance and reporting obligations upon us.

Our internal controls over financial reporting are not effective which could have a significant and adverse effect on our business and reputation.

We have identified a material weakness in our internal controls and can’t provide assurances that the weakness will be effectively remediated. As a public reporting company, we are in a continuing process of developing, establishing, and maintaining internal controls and procedures that allow our management to report on, and our independent registered public accounting firm to attest to, our internal controls over financial reporting if and when required to do so under Section 404 of the Sarbanes-Oxley Act of 2002. Our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an emerging growth company. Our management is required to report on our internal controls over financial reporting under Section 404. If we fail to achieve and maintain the adequacy of our internal controls, we would not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. Our Management has determined that the adequacy of our internal controls is not effective and is therefore unable to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. Moreover, our testing, or the subsequent testing by our independent registered public accounting firm, that must be performed may reveal other material weaknesses or that the material weaknesses described above have not been fully remediated. If we do not remediate any material weaknesses identified, or if other material weaknesses are identified or we are not able to comply with the requirements of Section 404 in a timely manner, our reported financial results could be materially misstated or could subsequently require restatement, we could receive an adverse opinion regarding our internal controls over financial reporting from our independent registered public accounting firm and we could be subject to investigations or sanctions by regulatory authorities, which would require additional financial and management resources, and the market price of our stock could decline.

Future sales of our Common Stock by our existing shareholders could cause our stock price to decline.

We currently have 6,481,457 shares of our Common Stock outstanding. All of such shares are eligible for resale under Rule 144; however, 2,938,288 are held by affiliates and are subject to certain volume limitations. If our shareholders sell substantial amounts of our Common Stock in the public market at the same time, the market price of the Common Stock could decrease significantly due to an imbalance in the supply and demand of our Common Stock. Even if they do not actually sell the stock, the perception in the public market that our shareholders might sell significant shares of the Common Stock could also depress the market price of the Common Stock.

A decline in the price of shares of our Common Stock might impede our ability to raise capital through the issuance of additional shares of our Common Stock or other equity securities, and may cause you to lose part or all of your investment in our shares of Common Stock.

We do not expect to pay dividends on our Common Stock in the foreseeable future.

We do not expect to pay dividends on our Common Stock for the foreseeable future, and we may never pay dividends. Consequently, the only opportunity for Common Stockholders to achieve a return on their investment may be if a trading market develops and Common Stockholders are able to sell their shares for a profit or if our business is sold at a price that enables Common stockholders to recognize a profit. Our Series A Preferred stockholders are entitled to an annual dividend of \$0.46 for each share of Series A Preferred, payable in cash or Common Stock, at the election of the holder, on January 31 of each year. We currently intend to retain any future earnings other than those paid as dividends to the Series A Preferred Stock or any other class of preferred stock to support the development and expansion of our business and do not anticipate paying cash dividends for the foreseeable future. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. In addition, our ability to pay dividends on our Common Stock may be limited by state law. Accordingly, we cannot assure investors any return on their investment, other than in connection with a sale of their shares or a sale of our business or dividends on their Series A Preferred Stock. At the present time there is no trading market for our shares. Therefore, holders of our securities may be unable to sell them. We cannot assure investors that an active trading market will develop or that any third party will offer to purchase our business on acceptable terms and at a price that would enable our investors to recognize a profit.

Limitations on director and officer liability and indemnification of our Company's officers and directors by us may discourage stockholders from bringing suit against an officer or director.

Our certificate of incorporation and bylaws provide, with certain exceptions as permitted by governing state law, that a director or officer shall not be personally liable to us or our stockholders for breach of fiduciary duty as a director or officer, except for acts or omissions which involve intentional misconduct, fraud or knowing violation of law, or unlawful payments of dividends. These provisions may discourage stockholders from bringing suit against a director or officer for breach of fiduciary duty and may reduce the likelihood of derivative litigation brought by stockholders on our behalf against a director or officer.

We are responsible for the indemnification of our officers and directors.

Should our officers and/or directors require us to contribute to their defense, we may be required to spend significant amounts of our capital. Our certificate of incorporation and bylaws also provide for the indemnification of our directors, officers, employees, and agents, under certain circumstances, against attorney's fees and other expenses incurred by them in any litigation to which they become a party arising from their association with or activities on behalf of our Company. This indemnification policy could result in substantial expenditures, which we may be unable to recoup. If these expenditures are significant, or involve issues which result in significant liability for our key personnel, we may be unable to continue operating as a going concern.

The rights of our preferred stock could negatively affect holders of Common Stock and make it more difficult to effect a change of control.

Our board of directors is authorized by our charter to create and issue preferred stock. Certain of the rights of holders of preferred stock take precedence over the rights of holders of Common Stock. We are authorized to issue 10,000,000 shares of Preferred Stock, of which 3,000,000 are designated as Series B Preferred Stock and 400,000 are designated as Series A Preferred Stock. We currently have no shares of Series B Preferred Stock and 105,000 shares of Series A Preferred Stock outstanding. Holders of Series A Preferred Stock are entitled to a dividend of \$0.46 per share each year payable in cash or stock at the option of the holder and Series A Preferred stock are entitled to a preference upon our liquidation, dissolution or winding up.

The Series A Preferred Stock are convertible voluntarily at the election of the holder or automatically ten trading days after delivery to the holder by us of a notice that the volume-weighted average closing price of our Common Stock over the ten trading days immediately preceding the date of notice is at least \$20.00 per share. The holders of the Series A Preferred Stock and the shares of Common Stock and warrants issued in our private placement offering that was consummated in January 2015 are also entitled to registration rights with respect to such shares. We may issue additional shares of Series B or Series A Preferred Stock in addition to other preferred stock. As future tranches of capital are received by us, additional preferred stock may be issued which such terms and preferences as are determined in the sole discretion of our board of directors. The rights of future preferred stockholders could delay, defer or prevent a change of control, even if the holders of Common Stock are in favor of that change of control, as well as enjoy preferential treatment on matters like distributions, liquidation preferences and voting.

Our Common Stock is not currently traded on any market, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.

The Common Stock is not currently traded on any market and therefore no public market for our Common Stock exists. Accordingly, investors will have great difficulty selling any of our securities. Even if our Common Stock becomes traded on a securities exchange, we cannot predict the extent to which investors' interests will lead to an active trading market for our Common Stock or whether the market price of our Common Stock will be volatile or exceed the price paid by investors for the Common Stock or the exercise price of our Warrants outstanding. If an active trading market does not develop, investors will continue to have difficulty selling any of our Common Stock. There may be limited market activity in our stock and we are likely to be too small to attract the interest of many brokerage firms and analysts. If we trade on OTC markets, the trading volume we will develop may be limited by the fact that many major institutional investment funds, including mutual funds as well as individual investors, follow a policy of not investing in OTC stocks and certain major brokerage firms restrict their brokers from recommending OTC stocks because they are considered speculative, volatile, thinly traded and the market price of the Common Stock may not accurately reflect the underlying value of our Company. The market price of our Common Stock could be subject to wide fluctuations in response to quarterly variations in our revenues and operating expenses, announcements of new products or services by us, significant sales of our Common Stock, including "short" sales, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions.

The application of the "penny stock" rules to our Common Stock could limit the trading and liquidity of the Common Stock, adversely affect the market price of our Common Stock and increase your transaction costs to sell those shares.

If our Common Stock becomes traded on a securities market or exchange, as long as the trading price of our Common Stock is below \$5 per share, the open-market trading of our Common Stock will be subject to the "penny stock" rules, unless we otherwise qualify for an exemption from the "penny stock" definition. The "penny stock" rules impose additional sales practice requirements on certain broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). These regulations, if they apply, require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination regarding such a purchaser and receive such purchaser's written agreement to a transaction prior to sale. These regulations may have the effect of limiting the trading activity of our Common Stock, reducing the liquidity of an investment in our Common Stock and increasing the transaction costs for sales and purchases of our Common Stock as compared to other securities. The stock market in general and the market prices for penny stock companies in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. Stockholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include: (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The occurrence of these patterns or practices could increase the volatility of our share price.

We may not be able to attract the attention of major brokerage firms, which could have a material adverse impact on the market value of our Common Stock.

If a trading market develops for our Common Stock it will rely in part on the research and reports that equity research analysts publish about us and our business. We do not control these analysts. However, security analysts of major brokerage firms may not provide coverage of our Common Stock since there is no incentive to brokerage firms to recommend the purchase of our Common Stock, which may adversely affect the market price of our Common Stock. If equity research analysts do provide research coverage of our Common Stock, the price of our Common Stock could decline if one or more of these analysts downgrade our Common Stock or if they issue other unfavorable commentary about us or our business. If one or more of these analysts ceases coverage of our Company, we could lose visibility in the market, which in turn could cause our stock price to decline.

We effected a 1-for-2 reverse stock split of our outstanding Common Stock on March 25, 2015. However, the reverse stock split may not increase our stock price sufficiently once the stock is trading and we may not be able to list our Common Stock on a national securities exchange.

We expect that the reverse stock split of our outstanding Common Stock will increase the market price of our Common Stock once our stock is trading and enable us to meet the minimum market price requirement of the listing rules of a national securities exchange. However, the effect of a reverse stock split upon the market price of our Common Stock cannot be predicted with certainty, and the results of reverse stock splits by companies in similar circumstances have been varied. It is possible that the market price of our Common Stock following the reverse stock split will not increase sufficiently for us to be in compliance with the minimum market price requirement of a national securities exchange, or if it does, that such price will be sustained. If we are unable to meet the minimum market price requirement, we may be unable to list our shares on a national securities exchange, in which case such an offering may not be completed.

Even if the reverse stock split achieves the requisite increase the market price of our Common Stock, there can be no assurance that we will be approved for listing on a national securities exchange or able to comply with other continued listing standards of a national securities exchange.

Even if the market price of our Common Stock increases sufficiently so that we comply with the minimum market price requirement, we cannot assure you that we will be able to comply with the other standards that we are required to meet in order to be approved for listing on a national securities exchange or maintain a listing of our Common Stock on such exchange. Our failure to meet these requirements may result in our Common Stock being delisted from a national securities exchange.

The reverse stock split may decrease the liquidity of the shares of our Common Stock.

The liquidity of the shares of our Common Stock may be affected adversely by the reverse stock split given the reduced number of shares that will be outstanding following the reverse stock split. In addition, the reverse stock split may increase the number of shareholders who own odd lots (less than 100 shares) of our Common Stock, creating the potential for such shareholders to experience an increase in the cost of selling their shares and greater difficulty affecting such sales.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On January 7, 2015, in terms of an employment agreement entered into with Richard Cunningham, our new CEO, a further 250,000 ten-year stock options exercisable at \$3.50 per share were issued to him. These options vest as follows: 50,000 on November 24, 2015, 150,000 vest equally over a period of 36 months commencing on November 24, 2015 and 50,000 on November 24, 2018.

On February 2, 2015, a further 5,000 ten-year stock options were awarded to a new employee, exercisable at \$3.50 per share and vesting as to 1,250 stock options annually on the anniversary date of employment over the next four years.

Effective January 1, 2015, the Company issued 32,500 warrants exercisable at \$3.50 per share to BluePrint Media, LLC, in terms of an agreement entered into to provide investor relations consulting services to the Company.

In terms of a court order handed down on March 16, 2015 in the Estate of Sigmund Eisenschenk matter, the Company issued 177,500 shares, pre-reverse split to the Estate.

On June 16, 2015, in terms of a Restricted Stock award, 19,000 Restricted shares were issued to the Chairman of our audit committee and one of our board directors as a once off compensation expense for his services as chairman of the audit committee. These shares vest as to 6,250 shares on June 30, 2015, 6,250 on September 30, 2015, 6,250 on December 31, 2015 and the 6,250 on March 31, 2016.

Unless otherwise stated, the sales of the above securities were deemed to be exempt from registration under the Securities act in reliance upon Section 4(a)(2) of the Securities Act. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosure.

Not applicable.

Item 5. Other Information.

None

Item 6. Exhibits.

| Exhibit Number | Description |
|---------------------------|---|
| 31.1 | Certification of the Principal Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Principal Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act |
| 32.2 | Certification of the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act |
| 101.INS | XBRL Instance |
| 101.XSD | XBRL Schema |
| 101.PRE | XBRL Presentation |
| 101.CAL | XBRL Calculation |
| 101.DEF | XBRL Definition |
| 101.LAB | XBRL Label |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XRPRO SCIENCES, INC.

Date: August 14, 2015

By: /s/ Richard Cunningham
Richard Cunningham
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 14, 2015

By: /s/ Mark Korb
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
AND PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Richard Cunningham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of XRpro Sciences, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financing reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2015

By: /s/ Richard Cunningham
Richard Cunningham
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Mark Korb, certify that:

1. I have reviewed this quarterly report on Form 10-Q of XRpro Sciences, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financing reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2015

By: /s/ Mark Korb
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of XRpro Sciences, Inc. (the "Registrant") on Form 10-Q for the period ending June 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Cunningham, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section. 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 14, 2015

By: /s/ Richard Cunningham
Richard Cunningham
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of XRpro Sciences, Inc. (the "Registrant") on Form 10-Q for the period ending June 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Korb, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section. 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 14, 2015

By: /s/ Mark Korb
Chief Financial Officer
(Principal Financial Officer)