:: ANNUAL REPORT 2007

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Wholly "Green"

Nature's vitality underlies all of Ceapro's products and determines every aspect of its character. The company fosters the organic and the renewable. Ceapro's aim in the course of fifteen years of research has always been to provide entirely "green" and innovative functional ingredients to both the manufacturers of personal care products and the developers of therapeutics for human and animal well-being. Ceapro subscribes fully to the objectives of The Natural Step [www.naturalstep.ca], a global movement promoting environmental preservation through ecological, social, and economic sustainability. Ceapro is committed to reducing its environmental footprint on an on-going basis.

:: LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

As this report comes to you, we are using our dual strengths of innovation and technology to be an excellent manufacturer of natural and organic active ingredients, and win over our fair share of health markets globally. Intellectual capital continues to be our key asset which, paired with our proprietary extraction and standardization technologies, powers the creation of innovative processes and original products.

Highlights

- At the end of 2007, Ceapro signed a marketing and distribution agreement with the French firm, Laserson, to distribute a range of seven new organic products throughout France;
- In January 2008, we expanded our Certified-Organic™ line by signing two specialist distributors in the United States: KAH Specialty Products to cover the US East Coast states, and Harris & Ford for the Midwest;
- In April 2008, we announced East Hill Corporation of Korea as the Asian distributor of our Certified-Organic™ line.

The financial results for 2007 do not reflect our business achievements in the areas of new product development, product launches, or new marketing agreements. In our industry, the product cycle requires a long take-up period for results to become visible as top-line financial growth. We must factor in time for markets to develop and introduce products into the pipeline some time before greater sales revenues are realised. The good efforts of 2007 will affect the top line in 2008, 2009, and beyond.

The length of the product development cycle contrasts with the immediate investment costs for market development and expansion of operations, with significant costs in fitting-out buildings, acquiring and relocating equipment, as well as commissioning costs, and training costs.

The relocation of primary manufacturing operations from the Government of Alberta's Food Process Development Centre (FPDC) pilot plant to the Ceapro Leduc production plant took time and considerable cost. To date, we are still dependent on the FPDC pilot plant for some parts of our process. Using the FPDC pilot plant incurs significant daily-lease costs in addition to our own production plant costs – a combination that seriously affects margins. We are purchasing the necessary equipment to reduce that dependence and eliminate the operating costs for the FPDC pilot plant. We expect the final acquisitions to be made during the fall of 2008.

The move to the Ceapro Leduc production plant was mandated by increased demand for our products and the opportunity to develop new markets. Ceapro simply could not continue manufacturing exclusively from the FPDC pilot plant.

Despite the current operating cost issues, the Leduc production plant allows us to operate continuous processes, expand production shifts, and enhance production parameters. From this base we will develop plans for a major change in operations in 2010. Management is investigating ways to satisfy future demands, including researching additional appropriate manufacturing sites elsewhere in Canada and abroad.

Goals and Objectives

Together with our Board of Directors, Ceapro's Management has established clear goals for 2008:

Profitability is a key objective. Before the move to the Leduc production plant, Ceapro achieved Operating Profits on a regular quarterly basis. A biotech company requires the use of capital for research: for the last three years we have invested significant capital in developing and patenting new products and processes. We are at a point in the research/commercialization cycle to realize the commercial benefits of our innovation.

Productivity, as measured by gross margin, is established at a minimum of 50% for our core active ingredients, a realistic number fitting with our status as a biotech company. Our processes operated at this level in the past, and we are confident such productivity will be restored. The disruptions associated with the Leduc production facility, as well as Alberta labour issues, impaired productivity during the second half of 2007 and the first several months of 2008. Current processing operations are improving, and we have attracted key new employees.

Research and innovation are the foundation of a knowledge-based company and are Ceapro's forte. We have a proven track record of commercialization – generating revenues from our technology. We are on track to develop and launch important new products in 2008. An array of new technologies is currently in the R&D or pre-commercial stage. At every phase we have a well-integrated green sensibility functioning as a fundamental part of our processes, not simply a marketing add-on.

Marketing and business development is dependent on our distribution partners and their customer networks. Since 1999, we focused on sales to the mainstream cosmetic and personal care sector through our partner Symrise AG. Working together we established our active ingredients as base ingredients in a number of major global brands – Aveeno and Dove – with global corporate customers such as Johnson & Johnson and Unilever. In mid-2007, we expanded our active ingredient range to 18 patent-protected products by the addition of Certified-Organic™ extracts. These new products will be distributed through new alliances with specialist marketers in the organic sector. The alliances will stretch beyond cosmetics and cosmeceuticals to open markets in nutraceuticals. Four of these new alliances have been created with strategic partners to cover specific territories: Laserson, KAH Speciality Products, Harris & Ford, and East Hill.

Beyond opening new application markets, we are placing increased emphasis on new geographic markets to reduce dependency on US customers. New sales are expected from our new strategic partners in France and Korea.

Business Development in the form of new strategic alliances will be pursued to ensure the use of our patents. Early in 2008, we mandated consultants to introduce Ceapro at the highest levels of global pharmaceutical and biotechnology companies, and to facilitate contract discussions. As a result, Ceapro is now engaged in a number of important negotiations for the development and licensing of our products and technology.

Human Resources present a challenge to companies operating in Alberta today as there is an overall shortage of skilled personnel due to the strong economy. Ceapro is fortunate to have experienced and productive employees in all areas. While we are always striving to find ways to improve productivity, we are greatly appreciative for their hard work and accomplishments over the past year.

Ceapro's powerful portfolio of technology adds value to products in the fields of pharmaceuticals, cosmeceuticals, and nutraceuticals. All our work is based on compelling science supported by ethical values. We are in the vanguard of research, implementation, and utilization of natural materials. Our objective over the last 15 years has been to provide green and innovative solutions to both the manufacturers of personal care products and the developers of therapeutics for human and animal health.

We are engaged in advancing new technology to a partnering or spin-out position. In 2007, we partnered with Gamma-Dynacare Medical Laboratories to present CeaProve® to the Canadian market and we expect to maximize CeaProve® utilization through other partnerships. In April 2008, Ceapro signed a licensing agreement with the University of Guelph for the use of a spearmint variety containing extraordinarily high levels of rosmarinic acid, a powerful antioxidant and anti-inflammatory compound. Ceapro will apply its patented extraction and processing technologies to create products with cosmeceutical, nutraceutical, and pharmaceutical applications.

Our fundamentals are solid: we have good science, innovative thinking, and tried processes for developing and delivering products. Despite challenging economic conditions, and delays in completing production efficiencies, Ceapro's outlook is positive. We expect to minimise the impact of the strong Canadian dollar in the future by diversifying our sales into other geographic areas, such as Europe, and denominating sales in other currencies; we will confront the skilled labour shortage in Alberta by diversifying our manufacturing locations. Ceapro expects to realize the benefits of more efficient production, greater capacity, and flexibility to expand sales and markets.

Our business growth depends on our ability to access global markets through distribution partnerships. Our marketing strategy emphasizes providing technical support to our distributors and their customers to maximize the value of our technology and increase product utilization.

Our vision and business strategy are supported by our commitment to the following core values:

- Adding value to all aspects of our business;
- Enhancing human and animal health;
- Discovering, extracting, and commercializing new, natural ingredients;
- Producing the highest quality possible in products, science, and business; and
- Developing personnel through guidance, opportunities, and encouragement.

Comprehensive Environmental Commitment, Plant-derived, and Certified Organic. The organic aspect of Ceapro's product line is all-encompassing. Products are derived exclusively from natural sources. Most of our raw materials, processes, and products are certified organic. We have developed new techniques to reduce water usage and waste. Ceapro subscribes fully to the objectives of The Natural Step [www.naturalstep.ca], a global movement promoting environmental preservation through ecological, social, and economic sustainability. Ceapro is committed to reducing its environmental footprint on an on-going basis.

Conclusion

Ceapro is implementing its strategic plan in a measured and responsible manner. With the product-to-market cycle taking a year or more to develop, we expect the first indications of increased organic growth to come in the second half of 2008. We expect partnerships, joint-ventures, and mergers and acquisitions to play a major role in reaching Ceapro's full potential.

SIGNED "Ed Taylor"
Chairman of the Board

July 7, 2008

:: MANAGEMENT'S DISCUSSION & ANALYSIS

The MD&A provides commentary on the results of operations for the years ended December 31, 2007 and 2006, financial position as at December 31, 2007 and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 22, 2008. The following information should be read in conjunction with the consolidated financial statements as at December 31, 2007, and related notes thereto, which are prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). All comparative percentages are between the years ended December 31, 2007 and 2006 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Ceapro's future plans and operations as at April 22, 2008, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. You are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Vision, Core Business, and Strategy

Ceapro Inc. (Ceapro) is incorporated under the Canada Business Corporations Act, and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc. are incorporated under the Alberta Business Corporations Act. Ceapro USA Inc. is incorporated in the state of Nevada. Ceapro is a growth stage technology company. Our primary business activities relate to the development and commercialization of natural and organic products for medical, cosmetic, and animal health industries using proprietary technology and natural, renewable resources. We will also be applying our technology to the prediabetes screening and bioenergy markets.

Our products include:

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

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

- CeaProve®, a diabetes test meal to screen pre-diabetes and to determine dosage levels for diabetes oral therapy, and to monitor the condition of pre-diabetics. A Canadian patent was issued in July of 2007 and the product received prime exposure at the Canadian Diabetes Association/Canadian Society of Endocrinology and Metabolism Professional Conference. Following the successful Conference a distribution agreement was signed with Gamma Dynacare to target the medical laboratory market;
- A drug-delivery platform using our beta glucan technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging;
- An extension to the active ingredients product range offering, through new plant extract products; and
- An extension to the existing veterinary products line, through new therapeutic products/formulations.

Our vision is to be a global leader in developing and commercializing products for the human and animal health markets through the use of proprietary technology and renewable resources. We act as innovator, advanced processor and formulator in the development of new products. We deliver our technology to the market through distribution partnerships and direct sales efforts. Our strategic focus is:

- Increasing sales and expanding markets for active ingredients;
- Developing and marketing additional high-value proprietary therapeutic products;
- Deploying CeaProve® and maximizing product utilization;
- Advancing new technology to a partnering or spin out position; and
- Completing a Bio-energy feasibility study.

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

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

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

To support these objectives, we believe we have the requisite resources (intellectual and human capital) and the competitive advantages (partnerships) to exploit our technology. To fund our operations, Ceapro relies upon revenues generated from the sale of active ingredients and veterinary therapeutic products, and the proceeds of public and private offerings of equity securities, debentures, and other income offerings.

Risks and Uncertainties

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

These financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge liabilities in the normal course of operations. Since inception, the Company has accumulated net losses, negative operating cash flow and has not yet achieved consistent profitability. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company operations. The Company potentially faces material financial exposures related to litigation issues that are presently uncertain. The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, achieving profitability, and generating positive cash flow to continue as a going concern. These financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities and revenues and expenses and the balance sheet classification used if the Company were unable to continue operations.

A substantial portion of Ceapro's sales are currently to five distributors; the Company is dependent on those distributors for a substantial portion of its sales. The Company recently launched a new organic line of products and signed new distribution agreements with multiple parties.

Ceapro has exposure to risk arising from volatility in foreign exchange rates as substantially all sales of our products are denominated in United States currency, while its expenses are primarily denominated in Canadian dollars. We do not currently engage in hedging or use of derivatives to reduce foreign exchange risk. Ceapro intends to reduce this risk in the future by selling some products in other currencies.

Ceapro's long-term debt has a fixed interest rate over the term of the obligation. The Company's exposure to interest rate risk is mitigated by having fixed rate debt.

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

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

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

Recently adopted accounting pronouncements

Effective January 1, 2007, the Company adopted the revised CICA Handbook section 1506 "Accounting Changes", which requires that: (a) a voluntary change in accounting principles can be made if, and only if, the changes result in more reliable and relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amount and justification for the change, and (c) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting policies since the adoption of the revised standard.

Effective January 1, 2007, the Company prospectively adopted without restatement, the new CICA Handbook sections 3855 – Financial Instruments – Recognition and Measurement, 1530 – Comprehensive Income, and 3865 – Hedges. These sections provide standards for the recognition, measurement, disclosure, and presentation of financial assets, financial liabilities and derivatives. The standards prescribe when a financial instrument is to be recognized on the balance sheet and at what amount. They also specify how gains and losses on financial instruments are to be presented.

The standards relating to comprehensive income require the reporting and presentation of among other things, certain unrealized gains and losses outside of net income or loss as a separate component of shareholders' equity. Comprehensive income is defined as a change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company has no financial instruments or activities that give rise to other comprehensive income (loss).

The Company has not participated in any hedging activities. As a result the standards relating to hedges have had no impact on the audited consolidated financial statements for the year ended December 31, 2007.

The Company has cash and cash equivalents that are classified as held-for-trading. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities. The carrying value approximates the fair value for each of these instruments due to the short term nature.

The long term debt is classified as other liabilities and in the opinion of management the carrying value approximates the fair value.

The adoption of these new standards concerning financial instruments and comprehensive income has had no impact on the audited consolidated financial statements for the year ended December 31, 2007.

Recent Accounting Pronouncements Issued and Not Yet Adopted

Capital Disclosures

Section 1535, Capital Disclosures establishes disclosure requirements concerning capital such as qualitative information about the Company's objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and whether the Company has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The Company is presently evaluating the impact of this new standard, but does not expect the adoption of this standard to have a material impact on its financial position and results of operations. This section is effective for fiscal years beginning on or after October 1, 2007.

Financial Instruments – Disclosures and Financial Instruments – Presentation

Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing the Company's disclosure requirements, and carrying forward unchanged the Company's presentation requirements. The Company is presently evaluating the impact of these new standards, but does not expect the adoption of these standards to have a material impact on its financial position and results of operations. This section is effective for fiscal years beginning on or after October 1, 2007.

Inventories

Section 3031, Inventories, replaces Section 3030, Inventories, revising and enhancing the Company's standards for the measurement and disclosure of inventories. The Company is presently evaluating the impact of this new standard, but does not expect the adoption of this standard to have a material impact on its financial position and results of operations. This section is effective for fiscal years beginning on or after January 1, 2008.

Going Concern

Section 1400, General Standards of Financial Statement Presentation was amended to provide guidance on the assessment of whether an entity is a going concern and related disclosures. The company is presently evaluating the impact of this new standard, but does not expect the adoption of this standard to have a material impact on its financial position and results of operations. This section is effective for fiscal years beginning on or after January 1, 2008.

Results of Operations

YEARS ENDED DECEMBER 31, 2007, 2006, AND 2005

SELECTED ANNUAL INFORMATION

$000s except per share data	**2007**	2006	2005
Total revenues	**3,448**	3,310	2,763
Net loss and comprehensive loss	**(1,389)**	(272)	(57)
EBITDA	**(1,225)**	(79)	156
Basic net loss per common share	**(0.03)**	(0.01)	(0.00)
Diluted net loss per common share	**(0.03)**	(0.01)	(0.00)
Total assets	**4,588**	2,063	2,419
Total liabilities	**3,034**	1,759	1,958

During 2007, there was a 5% increase in active ingredient sales leading to an overall increase of product sales of 4%.

In 2007, the net loss increased by $1,117,000. Revenues increased $138,000 and the gross margin decreased $242,000. There was an increase in general and administration expenses of $239,000, higher sales and marketing costs of $77,000, and increased research and development costs of $331,000. Decreased CeaProve® funding from AVAC Ltd. in the amount of $190,000 and increased CeaProve® development costs of $111,000 are the main reasons for increased research and development expenses.

EBITDA decreased in the period by $1,146,000, due to the above factors.

The strong Canadian dollar had a material impact on the revenues of Ceapro over the year. Ceapro's revenues are substantially all denominated in United States currency, thus a strong Canadian dollar reduces the value of each sale.

Revenue

$000s	**2007**	2006	Change
Product sales			
Active ingredients	**3,055**	2,917	5%
Veterinary therapeutic products	**393**	393	0%
Total revenues	**3,448**	3,310	4%

PRODUCT SALES

In 2007, active ingredient sales rose $138,000 or 5% as a result of increased sales of oat oil and oat powder, the introduction of sales of animal health pre-mixes, offset by lower sales of the first generation colloidal oat extract product. The increase in sales of active ingredients has also been part of Ceapro's continual sales efforts with both the large and mid-size personal care and cosmetic companies. Ceapro continually looks for new and innovative products to add to the current line.

Sales of veterinary therapeutic products were unchanged in 2007 from 2006.

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

$000s	**2007**	2006	Change
Sales	**3,448**	3,310	
Cost of products sold	**1,794**	1,414	
Gross margin	**1,654**	1,896	-13%
Gross margin %	**48%**	57%	

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

For 2007, the gross margin percentage decreased to 48% from 57%, primarily a result of a decrease in the value of the United States dollar, the effects of labor shortages, a greater reliance on overtime hours worked, and the effects of restrictions in the permitted operating hours of the plant. Additional factors decreasing margins included the use of internal resources to develop the new plant, start up adjustments from new equipment installed in the last year, and a different product sales mix with higher sales of some lower margin products.

GENERAL AND ADMINISTRATION

$000s	**2007**	2006	Change
Salaries and benefits	**370**	349	
Board of Directors compensation	**143**	97	
Investor relations	**207**	93	
Insurance	**120**	100	
Legal	**64**	33	
Other	**355**	348	
Total general and administration expenses	**1,259**	1,020	23%

General and administration expense for 2007 increased $239,000 or 23% primarily due to an increase in salaries and benefits, the provision of investor relation services which were not provided in 2006, and higher insurance coverages due to new equipment purchases and prior year premium adjustments. Board of Directors compensation includes a stock option expense that was not incurred in 2006.

SALES AND MARKETING

$000s	**2007**	2006	Change
Salaries and benefits	**308**	216	
Other	**111**	126	
Total sales and marketing	**419**	342	23%

Sales and marketing expenses increased by $77,000 or 23% largely due to the appointment of a Vice President of Business Development, a significant investment in creating the Ceapro Dermatology brand, and developing marketing plans and materials for Ceapro Veterinary Products for the United States market. No further expenditures are planned for Ceapro Dermatology in 2008.

ROYALTIES

$000s	**2007**	2006	Change
Royalty interest units	**365**	350	
AVAC Ltd. Royalty	**-**	5	
Less: Recognition of deferred royalty revenue	**(39)**	(38)	
Total royalties expenses	**326**	317	3%

As at December 31, 2007, royalty investors receive royalties equal to 10.59% (2006 – 10.59%) of revenues from product sales and royalty, license, and product development fees of active ingredients, veterinary therapeutic products, and CeaProve® to a maximum of two times the amount invested. AVAC Ltd. receives royalties of up to 5% of revenues from eligible product sales, to a maximum of one and a half times the amount invested and royalties of 2.5% of revenues of eligible product sales to a maximum of two times the amount invested. AVAC Ltd. is not currently receiving any royalties under its agreements other than repayment of fully accrued royalty liabilities previously expensed. Royalty expense throughout 2008 will vary directly with fluctuations in product sales, royalty license and product development fees, product sales mix, and any new royalty interest offerings or AVAC Ltd. investments that may be completed. During 2006, one of the AVAC royalties was fully earned and accrued. During 2006, the Company commenced the recognition of deferred royalty revenue for royalty interest units issued in 2005 at a rate of one half times the amount of the royalty interest expense.

BIOENERGY FEASIBILITY STUDY

During the year ended December 31, 2007, work continued on the bioenergy feasibility study that was commenced in the first quarter. At December 31, 2007, costs of $320,000 had been incurred offset by the recognition of government funding and industry contributions in the amount of $229,000 for a net expense of $91,000.

Subsequent to year end, the deadline for the submission of the bioenergy feasibility study to the Federal Government was changed to April 30, 2008 from December 31, 2007.

INTEREST

$000s	**2007**	2006	Change
Interest on callable debt, convertible debentures, and other	**1**	1	
Interest on long-term debt	**43**	45	
Total interest expense	**44**	46	(4%)

Interest expense decreased $2,000 due to lower effective interest rates.

AMORTIZATION

Amortization expense decreased by $26,000 or 18%, due primarily to a change in estimate of the economic life of plant equipment to ten years. This was partially offset by amortization of new plant equipment and leaseholds commencing in October 2007 with the startup of the new plant.

RESEARCH AND PRODUCT DEVELOPMENT

$000s	**2007**	2006	Change
Salaries and benefits	**136**	143	
Product development - CeaProve®	**422**	311	
Other	**138**	101	
Research and product development expenditures	**696**	555	25%
AVAC Ltd. investment (CeaProve®)	**-**	(190)	
Net research and product development expenses	**696**	365	91%

Net research and product development expenses increased $331,000 or 91% primarily due to a decrease in AVAC Ltd. investments in the amount of $190,000 for the CeaProve® project and an increase in CeaProve® development costs in the amount of $111,000 .

OTHER (LOSS) INCOME

$000s	**2007**	2006	Change
AVAC - product innovation investment	**-**	37	
Foreign exchange gains (losses) and other	**(89)**	33	
Total other income	**(89)**	70	(227%)

Other income was lower in 2007 due to foreign exchange losses of $122,000 offset by interest income on surplus cash balances of $33,000. The United States dollar weakened steadily against Canadian dollar in 2007 resulting in foreign currency losses. Stronger United States dollar exchange rates versus Canadian dollars at year end resulted in recognized

foreign currency gains in the amount of $33,000 in 2006.

QUARTERLY INFORMATION

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

	2007				2006			
$000s except per share data	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total revenues	**776**	**591**	**1 119**	**962**	704	762	945	899
Net (loss) income	**(528)**	**(602)**	**(237)**	**(22)**	(122)	(96)	(3)	(51)
Basic (loss) income per share	**(0.01)**	**(0.01)**	**(0.01)**	**(0.00)**	(0.00)	(0.00)	(0.00)	(0.00)
Diluted (loss) income per share	**(0.01)**	**(0.01)**	**(0.01)**	**(0.00)**	(0.00)	(0.00)	(0.00)	(0.00)

Ceapro's quarterly sales and results fluctuate due to variations in the timing of product sales. For example, a significant proportion of our annual veterinary therapeutic product sales are in the second quarter of the year.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the past two years.

($000s)	**2007**	2006
Sources of funds:		
Funds generated from operations (cash flow)	**(1,135)**	(41)
Change in non-cash working capital items	**87**	204
Share capital issued, net of costs	**2,569**	89
Long term debt proceeds	**1,612**	-
	3,133	252
Uses of funds:		
Purchase of property and equipment and deposits	**(1,602)**	(245)
Deferred royalty revenue	**(39)**	(38)
Change in long-term and callable debt	**(473)**	(79)
Royalties payable	**(48)**	(17)
	(2,162)	(379)
Net change in cash	**971**	(127)

Liquidity and Capital Resources

Ceapro relies upon revenues generated from the sale of active ingredients and veterinary therapeutic products, the proceeds of public and private offerings of equity securities and debentures, and income offerings to support the Company's operations.

Ceapro has increased production capacity and expanded manufacturing operations at Leduc, Alberta. The investment in capital equipment should provide returns through reduced costs and higher margins, expanded volumes, and a greater diversity of products in 2008. The expansion plan began in the last quarter of 2005, as Ceapro commenced engineering and design studies for the potential expansion of manufacturing space to 4,000 square feet. During the month of October 2007, commercial production commenced in the new facility. The expanded area offers space to operate continuous processes, expand production shifts, enhance production parameters, and allow streamlined production of pharmaceutical-grade active ingredients. Agricultural Financial Services Corporation has approved a term loan of up to $1,612,406 for the new equipment and refinancing of existing debt. The loan was fully drawn down at December 31, 2007 and regular monthly payments began in February 2008.

On June 27, 2007, Ceapro completed a private placement offering of 8,684,190 units at a price of $0.31 per unit for total gross proceeds of $2,692,100. Each unit consists of one common share and one half of a common share purchase warrant. Each full common share purchase warrant entitles the holder to purchase one common share at a price of $0.45 until February 27, 2009. An additional 464,513 agent warrants were issued to the agent as partial remuneration for their services with respect to completion of the private placement. These warrants entitle the agent to purchase one common share at a price of $0.31 per share until February 27, 2009.

Total common shares issued and outstanding as at April 22, 2008 and December 31, 2007 were 47,050,063 (December 31, 2006 – 37,505,505). In addition, 2,308,092 stock options (December 31, 2006 – 3,082,460) and 4,806,608 warrants (December 31, 2006 – 774,066) were outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' equity increased to $1,554,000 at December 31, 2007 from $304,000 at December 31, 2006.

Ceapro's working capital position was $1,425,000 at December 31, 2007, an increase of $785,000 from December 31, 2006. This was due primarily to the completion of the private placement offering on June 27, 2007 and the new long term debt facility offset by significant capital expenditures for the new processing facility, operating losses, and repayment of previous long term debt.

To meet future requirements, Ceapro may raise additional cash through some or all of the following methods: public or private equity or debt financing, income offerings, capital leases, collaborative and licensing agreements, and joint venture or partnership financings. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all. The ability to generate new cash will depend on external factors, many beyond the Company's control, as outlined in the Risks and Uncertainties section. Should sufficient capital not be raised, Ceapro may have to delay, reduce the scope of, eliminate, or divest one or more of its discovery, research, or development technology or programs, any of which could impair the value of the business.

Related Party Transactions

During 2007, $59,233 of royalties were earned by employees and Directors from their investment in previous Ceapro royalty offerings. An employee invested $25,000 in the sale of lawsuit interests during 2007. At December 31, 2007, $13,272 of royalties were payable to employees and Directors. Included in accounts receivable at December 31, 2007 is $8,500 due from an employee for lawsuit financing. Accounts payable includes $36,359 of Director fees. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Legal Proceedings

Ceapro Inc. commenced litigation against a number of defendants in 2002 in the Court of Queen's Bench of Saskatchewan (the "Saskatchewan Claim"). The defendants against whom the case proceeded to trial were the Government of Saskatchewan, Saskatchewan Government Growth Fund Ltd. (SGGF), Saskatchewan Government Growth Fund Management Corporation (SGGFMC), Gary K. Benson, Janice MacKinnon, and Can-Oat Milling Products Inc. The Saskatchewan Claim raises numerous causes of action against various of the defendants including a claim against all based in civil conspiracy. Ceapro claims damages in excess of $19 million for loss of its investment in Canamino Inc., plus additional damages for loss of goodwill and other losses and for other relief.

As of December 31, 2007, the Saskatchewan Claim had proceeded part way through trial. Subsequently, after the close of Ceapro's case and prior to completion of the trial, all of the defendants filed non-suit applications. By a judgement dated February 19, 2008, four of the six defendants were successful and the trial judge dismissed all the claims against them. The aspect of the claim of civil conspiracy which was plead against all defendants was also dismissed against the remaining two defendants. The other allegations against the remaining two defendants, SGGF and SGGFMC, survived the non-suit application and the trial of those claims continued until the end of the trial on March 27, 2008. With respect to the dismissal ruling, Ceapro has brought an application to have a notice of appeal filed which was heard on April 14, 2008. The decision on this application has been reserved. The final trial judgement is now under reserved decision and a release of that decision is expected before June 30, 2008.

Legal fees and other direct costs associated with the lawsuit for all periods up to and including December 31, 2007 have been funded by the Company only from funds received from lawsuit contributors who, in exchange, have received interests in the proceedings, if any, from the Saskatchewan Claim; and through agreements with the Company's legal counsel to accept a portion of their fees on a contingency basis. Consequently, no costs associated with the lawsuit are included in the Company's financial statements. In addition, the Company was required to post a bond relating to legal costs up to $305,000 which was secured by guarantees of certain members of the current and past Board of Directors and an Officer of the Company. The Company has indemnified the Board of Directors, certain past members of the Board of Directors, and an Officer in relation to the bond.

The outcome of the surviving aspects of the Saskatchewan Claim have not yet been determined. Until all decisions have been rendered, including any appellate rulings, the ultimate financial impact on the company remains uncertain, including any estimate of court costs. Ceapro may be successful in some aspects of the litigation and not others, and this could impact court costs. A significant court cost award could have a material impact on the Company's financial position. No provision has been made in the financial statements and the full financial impact, if any, will be recorded when the outcome of the litigation is known.

Subsequent to December 31, 2007, the company has received invoices from legal counsel for services rendered in furtherance of the Saskatchewan Claim in the amount of $649,330. The legal invoices totaled $432,212 for the months of January and February 2008 and $217,118 for March 2008.

Outlook

Despite challenging economic conditions, Ceapro's outlook is positive. Ceapro anticipates robust organic growth and improving financial performance based on the sound foundation of work completed to date, and on innovations current and future.

As the new production facility becomes operational and the delays of construction are an issue of the past, Ceapro expects to realize the benefits of more efficient production, greater capacity, and flexibility to expand sales and markets. CeaProve® can now be manufactured on a commercial scale, allowing Ceapro to initiate a Canadian marketing campaign. The first result of the campaign has been an agreement with Gamma Dynacare Medical Laboratories to work together in the development of the prediabetes and diabetes screening market.

During 2007, Ceapro's scientists made major breakthroughs in further enhancing the efficiencies and capacities for the production of beta glucan and avenanthramides. Ceapro is already recognized as a world leader in the production of these extracts and with the new technologies the Company expects to be able to enter global markets for nutraceuticals and functional foods.

Ceapro will continue to implement its strategic plan in a measured and responsible manner. With the product-to-market cycle taking a year or more to develop, we expect the first indications of increased organic growth to come in the second half of 2008. Ceapro expects partnerships, joint-ventures, and mergers and acquisitions to play a major role in reaching its full potential.

The Company potentially faces material financial exposures related to litigation issues that are presently uncertain.

Additional Information

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

:: FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

To the Shareholders of **Ceapro Inc.**,

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

The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on the best estimates and judgments of Management. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

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

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

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

Sincerely,

SIGNED "Mark J. Redmond, Ph. D."
President and Chief Executive Officer

SIGNED "Branko Jankovic, CA"
Chief Financial Officer

Edmonton, Alberta
April 29, 2008

AUDITORS' REPORT

To the Shareholders of **Ceapro Inc.**,

We have audited the consolidated balance sheets of Ceapro Inc. as at December 31, 2007 and 2006, and the consolidated statements of net loss and comprehensive loss, and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
March 6, 2008 except as to
Note 9(a) and Note 17(b) which
are as of April 21, 2008

SIGNED: "Stout & Company LLP"
Chartered Accountants

Consolidated Balance Sheets

As at December 31	**2007** **$**	2006 $
ASSETS		
Current Assets		
Cash and cash equivalents	**1,282,326**	310,926
Accounts receivable	**708,165**	634,256
Inventories	**156,584**	160,456
Prepaid expenses and deposits	**130,100**	178,751
	2,277,175	1,284,389
Restricted Cash (note 7)	**50,000**	-
Deposits on Property and Equipment	**-**	167,828
Property and Equipment (note 3)	**2,260,418**	610,629
	4,587,593	2,062,846
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**494,413**	335,616
Current portion deferred revenue	**107,007**	105,000
Callable debt (note 4)	**-**	36,313
Current portion of long-term debt (note 5)	**112,638**	36,609
Current portion of royalties payable (note 6)	**138,185**	130,456
	852,243	643,994
Deferred Royalty Revenue	**328,377**	369,764
Employee Future Benefits Obligation (note 7)	**283,648**	219,340
Long-Term Debt (note 5)	**1 499,768**	400,122
Royalties Payable (note 6)	**69,905**	125,827
	3,033,941	1,759,047
SHAREHOLDERS' EQUITY		
Share Capital (note 8(b))	**5,016,395**	2 508,059
Contributed Surplus (note 8(c))	**259,329**	128,478
Deficit	**(3,722,072)**	(2,332,738)
	1,553,652	303,799
	4,587,593	2,062,846

CONTINGENCIES (note 9)

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: " Edward Taylor"
Director

Consolidated Statements of Net Loss and Comprehensive Loss, and Deficit

Years ended December 31	2007 $	2006 $
REVENUE		
Sales (note 10)	**3,447,694**	3,310,323
Cost of goods sold	**1,793,997**	1,413,976
Gross margin	**1,653,697**	1,896,347
EXPENSES		
General and administration	**1,258,885**	1 020,296
Royalties	**325,733**	317,355
Sales and marketing	**418,816**	342,207
Amortization	**120,444**	146,779
Interest on long-term debt	**42,954**	45,133
Interest on callable debt and other	**875**	1,220
	2,167,707	1,872,990
(Loss) income from operations	**(514,010)**	23,357
OTHER INCOME (EXPENSES)		
Research and product development	**(695,661)**	(365,424)
Bioenergy Feasibility Study	**(91,121)**	-
Other (loss) income (note 11)	**(88,542)**	69,710
	(875,324)	(295,714)
Loss before income taxes	**(1,389,334)**	(272,357)
Income taxes (note 12)		
Current	**-**	164,792
Reduction as a result of applying non-capital losses carried forward against the current year's taxable income	**-**	(164,792)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	**(1,389,334)**	(272,357)
Deficit, beginning of year	**(2,332,738)**	(2,060,381)
DEFICIT, END OF YEAR	**(3,722,072)**	(2,332,738)
Net loss per common share:		
Basic	**(0.03)**	(0.01)
Diluted	**(0.03)**	(0.01)
Weighted average number of common shares outstanding	**42,337,607**	37,188,901

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31	2007 $	2006 $
OPERATING ACTIVITIES		
Net loss and comprehensive loss for the year	**(1,389,334)**	(272,357)
Items not affecting cash and cash equivalents		
Amortization	**120,444**	146,779
Recognition of deferred royalty revenue	**(39,390)**	(37,820)
Employee future benefits obligation	**64,308**	59,394
Stock based compensation	**70,241**	25,592
	(1,173,731)	(78,412)
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Restricted cash	**(50,000)**	-
Accounts receivable	**(73,909)**	348,091
Inventories	**3,872**	67,702
Prepaid expenses and deposits	**48,651**	(87,990)
Accounts payable and accrued liabilities	**158,797**	50,753
Deferred revenue	**10**	(174,092)
	87,421	204,464
	(1,086,310)	126,052
INVESTING ACTIVITIES		
Purchase of property and equipment	**(1,770,233)**	(77,785)
Deposits on property and equipment	**167,828**	(167,828)
	(1,602,405)	(245,613)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(436,731)**	(33,519)
Repayment of callable debt	**(36,313)**	(45,271)
Proceeds from long-term debt	**1,612,406**	-
Proceeds from issuance of share capital	**2,692,100**	-
Proceeds from exercise of stock options	**163,876**	89,227
Share capital issue costs	**(287,030)**	-
Decrease in royalties payable	**(48,193)**	(17,995)
	3,660,115	(7,558)
Increase (decrease) in cash and cash equivalents	**971,400**	(127,119)
Cash and cash equivalents at beginning of year	**310,926**	438,045
Cash and cash equivalents at end of year	**1,282,326**	310,926
SUPPLEMENTARY INFORMATION		
Interest paid	**43,829**	46,353
Royalties paid	**375,926**	373,170
Cash and cash equivalents consist of:		
Cash on deposit with banks	**8,047**	165,251
CAD$ term deposit	**1,000,000**	-
US$ term deposit	**274,279**	145,675
	1,282,326	310,926

See accompanying notes

:: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business Operations and Going Concern

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

These financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge liabilities in the normal course of operations. Since inception, the Company has accumulated net losses, negative operating cash flow and has not yet achieved consistent profitability. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company operations. The Company potentially faces material financial exposures related to litigation issues that are presently uncertain. The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, achieving profitability, and generating positive cash flow to continue as a going concern.

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

2. Accounting Policies

(a) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of management estimates relate to amortization of property and equipment, the assumptions used in determining stock based compensation, and the interest rate used in determining the value of employee future benefits obligation. Actual results could differ from those estimates.

(b) Principles of consolidation

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

(c) Cash and cash equivalents

Cash and cash equivalents are defined as amounts on deposit with financial institutions and readily convertible term deposits.

(d) Revenue recognition

Revenue from the sale of health and wellness products is recognized as revenue at the time the products are shipped to customers.

The sale of royalty interests are recorded as deferred royalty revenue and are matched to future royalty expenses.

Royalty, licenses, and product development fees are recorded in accordance with the terms of the applicable agreements.

2. Accounting Policies (continued)

(e) Inventories

Inventory of raw materials is valued at the lower of cost and replacement cost on a first-in, first-out basis.

Inventory of work-in-process and active ingredients is valued at the lower of cost and net realizable value on an average cost basis.

Inventory of finished veterinary products is valued at the lower of cost and replacement cost on a first-in, first-out basis.

(f) Property and equipment

Property and equipment are recorded at cost and are amortized over their estimated useful lives as follows:

Manufacturing equipment	10 years straight line
Office equipment	20% declining balance
Computer equipment and software	30% declining balance
Leasehold Improvements	Over the term of the lease

A change was made in the company's estimate of the useful life of manufacturing equipment from 20% declining balance to straight line amortization over 10 years. This is considered to be a change in an accounting estimate. The impact of this change in accounting estimate in 2007 is lower amortization expense in the amount of $86,844. The future impact of this change is lower amortization expense until the manufacturing equipment is fully amortized.

(g) Research and product development expenditures

Research costs are expensed when incurred. Product development costs are also expensed when incurred unless they are significant and meet generally accepted criteria for deferral. Costs are reduced by government grants and investment tax credits where applicable.

(h) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year end exchange rates and non-monetary assets at the exchange rates prevailing when the assets were acquired. Foreign currency denominated revenue and expense items are translated at the rate of exchange in effect at the time of the transaction. Foreign currency gains or losses arising on translation are included in income.

(i) Income taxes

The liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated tax recoverable or payable that would arise if assets and liabilities were recovered or settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. Changes to these balances, including changes due to changes in income tax rates, are recognized in income in the period in which they occur. The amount of the future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(j) Lease obligations

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

(k) Government assistance

Government assistance is periodically granted to the Company under available government incentive programs. Government assistance relating to research and development expenditures is recorded as a reduction of the expenditures when received.

(l) Investment tax credits

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

(m) Net loss per common share

Basic net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if convertible securities and convertible debt were converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the conversion of convertible securities or convertible debt that are in-the-money are assumed to be used to purchase common shares of the Company at the average market price during the period. When the Company is in a net loss position, the conversion of convertible securities and debt is considered to be anti-dilutive.

(n) Stock based compensation

Stock based compensation is accounted for using the fair value method whereby compensation expense related to these programs is recorded in the statement of net loss, comprehensive loss and deficit with a corresponding increase to contributed surplus. The fair value of options granted is determined at the date of grant and expensed over the vesting period. The value of the warrants issued to agents is recorded as share issue costs with a corresponding increase to contributed surplus.

Consideration paid on the exercise of stock options and warrants is credited to share capital. Upon the exercise of the stock options and warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options and agents warrants that may not vest, but accounts for forfeitures as they occur.

(o) Employee future benefits

The Company accrues its obligations under an employee defined retirement benefit plan and related costs, net of plan assets. The cost of retirement benefits earned by employees is determined using the accumulated benefit method and management's best estimate of expected plan investment performance and retirement ages of employees. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur.

(p) Impairment of long-lived assets

In the event that facts and circumstances indicate that the carrying value of the long-lived assets may be impaired, the Company performs a recoverability evaluation. If the evaluation indicates that the carrying value is not recoverable from undiscounted cash flows attributable to the assets, then an impairment loss is measured by comparing the carrying amount of the asset to its fair value.

(q) Recently adopted accounting pronouncements

Effective January 1, 2007, the Company adopted the revised CICA Handbook section 1506 "Accounting Changes", which requires that: (a) a voluntary change in accounting principles can be made if, and only if, the changes result in more reliable and relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amount and justification for the change, and (c) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting policies since the adoption of the revised standard.

2. Accounting Policies (continued)

Effective January 1, 2007, the Company prospectively adopted without restatement, the new CICA Handbook sections 3855 - Financial Instruments - Recognition and Measurement, 1530 - Comprehensive Income, and 3865 - Hedges. These sections provide standards for the recognition, measurement, disclosure, and presentation of financial assets, financial liabilities and derivatives. The standards prescribe when a financial instrument is to be recognized on the balance sheet and at what amount. They also specify how gains and losses on financial instruments are to be presented.

The standards relating to comprehensive income require the reporting and presentation of among other things, certain unrealized gains and losses outside of net income or loss as a separate component of shareholders' equity. Comprehensive income is defined as a change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company has no financial instruments or activities that give rise to other comprehensive income (loss).

The company has not participated in any hedging activities. As a result the standards relating to hedges have had no impact on the consolidated financial statements for the year ended December 31, 2007.

The Company has cash and cash equivalents that are classified as held-for-trading. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities. The carrying value approximates the fair value for each of these instruments due to the short term nature.

The long term debt is classified as other liabilities and in the opinion of management the carrying value approximates the fair value.

The adoption of these new standards concerning financial instruments and comprehensive income has had no impact on the consolidated financial statements for the year ended December 31, 2007.

(r) Future accounting pronouncements not yet adopted

Capital disclosures
Section 1535, Capital Disclosures establishes disclosure requirements concerning capital such as qualitative information about the Company's objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and whether the Company has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The Company is presently evaluating the impact of this new standard, but does not expect the adoption of this standard to have a material impact on its financial position and results of operations. This section is effective for fiscal years beginning on or after October 1, 2007.

Financial Instruments - Disclosures and *Financial Instruments - Presentation*
Section 3862, *Financial Instruments - Disclosures* and Section 3863, *Financial Instruments - Presentation* replace Section 3861, *Financial Instruments - Disclosure and Presentation*, deals with revising and enhancing the Company's disclosure requirements, and carrying forward unchanged the Company's presentation requirements. The Company is presently evaluating the impact of these new standards, but does not expect the adoption of these standards to have a material impact on its financial position and results of operations. This section is effective for fiscal years beginning on or after October 1, 2007.

Inventories
Section 3031, *Inventories*, replaces Section 3030, *Inventories*, revising and enhancing the Company's standards for the measurement and disclosure of inventories. The Company is presently evaluating the impact of this new standard, but does not expect the adoption of this standard to have a material impact on its financial position and results of operations. This section is effective for fiscal years beginning on or after January 1, 2008.

Going Concern
Section 1400, *General Standards of Financial Statement Presentation* was amended to provide guidance on the assessment of whether an entity is a going concern and related disclosures. The company is presently evaluating the impact of this new standard, but does not expect the adoption of this standard to have a material impact on its financial position and results of operations. This Section is effective for fiscal years beginning on or after January 1, 2008.

3. Property and Equipment

	2007		
	Cost $	**Accumulated Amortization $**	**Net Book Value $**
Manufacturing equipment	**2,577,649**	**521,110**	**2,056,539**
Office equipment	**66,249**	**42,494**	**23,755**
Computer equipment and software	**181,275**	**89,150**	**92,125**
Leasehold improvements	**95,991**	**7,992**	**87,999**
	2,921,164	**660,746**	**2,260,418**

	2006		
	Cost $	Accumulated Amortization $	Net Book Value $
Manufacturing equipment	964,280	431,389	532,891
Computer equipment	120,637	72,309	48,328
Office equipment	66,013	36,603	29,410
	1,150,930	540,301	610,629

4. Callable Debt

	2007 $	2006 $
Loan, payable at $4,166 per month, principal and interest at 8%, secured by specific manufacturing equipment carrying value of $122,802 (2006 -$153,502) and a general security agreement, due November, 2007. The loan was repaid in full during the year.	-	36,313

5. Long-Term Debt

	2007 $	2006 $
Loan, payable at $17,384 per month, principal and interest at 5.49%, secured by a general security agreement, due January, 2013.	**1,612,406**	-
Loan, payable at $6,161 per month, principal and interest at 8.85%, secured by a general security agreement, due January, 2010. The loan was consolidated with the 5.49% loan during the year.	-	436,731
Less current portion	**112,638**	36,609
	1,499,768	400,122

Estimated principal payments due in the next five years are as follows:

	$
2008	112,638
2009	129,502
2010	136,794
2011	144,496
2012	152,631
Thereafter	936,345
	1,612,406

5. Long-Term Debt *(continued)*

The effective interest rate of 5.49% is a preferred rate and the monthly payments of $17,384 reflect this preferred rate. In the event of default of any terms and conditions of the loan and enforcement of these terms and conditions by the lender, the preferred interest rate will be cancelled from the date of enforcement of the action. If such a circumstance were to arise, the interest rate would become 7.49% and result in monthly payments of $18,925. The company is in compliance with all terms and conditions.

6. Royalties Payable

	2007 **$**	2006 $
Royalties payable pursuant to financial assistance received (note 6 (a))	**125,829**	181,751
Royalties payable pursuant to royalty interest offering (note 6 (c), (d), and (e))	**82,261**	74,532
	208,090	256,283
Less current portion	**138,185**	130,456
	69,905	125,827

(a) In the year ended December 31, 1999, the Company received financial assistance in the amount of $164,882 for the research and development of new products, patents, and markets. The Company is obligated to pay a 5% royalty (to a maximum of two times the financial assistance received) on sales generated from products developed using these funds. The portion of this obligation paid or accrued as at December 31, 2007 was $329,764 (2006 - $329,764). Pursuant to an agreement signed in March 2006, the terms of repayment were amended to allow all royalties payable as at December 31, 2005 in the amount of $223,692 to be repaid $13,981 per quarter commencing March 31, 2006. Royalties incurred subsequent to December 31, 2005 are to be repaid quarterly within 60 days of the quarter end.

(b) In the year ended December 31, 2004, the Company received a commitment for financial assistance totaling $250,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. In the year ended December 31, 2007, $225,000 (2006 - $225,000) of this commitment has been received. The Company is obligated to pay a royalty (to a maximum of two times the financial assistance received) on sales generated from CeaProve® on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. No royalties have been incurred during the current or prior years. The Company has repaid at December 31, 2007 $nil (2006 - $nil) of this obligation. Upon completion of the repayment of the financial assistance received, the Company will be required to repay $19,750 advanced during the year ended December 31, 2002. The portion of this obligation paid or accrued as at December 31, 2007 was $nil (2006 - $nil).

(c) In the year ended December 31, 2003, the Company completed a Royalty Income Unit offering through the terms described in an Offering Memorandum. Each royalty interest has a right to receive royalties equal to 0.00001% from the sale or licensing of the Company's active ingredients and animal health products, to a maximum cumulative amount of $2.08 per unit. Proceeds from the offering of $516,348 (before related expenses) represent the sale of a 5.163% royalty interest in the Company's future sales and licensing of active ingredients and animal health products. Maximum royalties payable are two times the amount invested or $1,032,695. The portion of this obligation paid or accrued at December 31, 2007 was $688,077 (2006 - $490,055).

(d) In the year ended December 31, 2003, the Company sold a 1.418% royalty interest in the Company's future sales and licensing of active ingredients and animal health products for $141,796. In the year ended December 31, 2004, the Company sold an additional 1.724% royalty interest in the future sales and licensing of active ingredients and animal health products for $172,401. The cumulative royalty interest of 3.142% for $314,197 results in combined maximum royalties of two times the amount invested or $628,394. The portion of this obligation paid or accrued at December 31, 2007 was $452,252 (2006 - $343,926).

(e) On December 28, 2005, the Company sold a 2.285% royalty interest in the Company's future sales and licensing of active ingredients, animal health, and CeaProve® products for $457,000. Maximum royalties payable are two times the amount invested or $914,000. The portion of this obligation paid or accrued as at December 31, 2007 was $154,421 (2006 - $nil).

f) In the year ended December 31, 2005, the Company received a commitment for financial assistance totaling $362,250 for product innovation development in the area of Veterinary Therapeutics and Active Ingredients. In the year ended December 31, 2007, $362,250 (2006 - $325,000) of the commitment has been received and $nil was receivable at December 31, 2007 (2006 - $37,250). The Company is obligated to pay a 2.5% royalty to a maximum of $75,000 per quarter (to a maximum of two times the financial assistance received or $724,500) on sales generated from products developed using these funds. These payments will commence when the royalty payments on investment agreements in note 6(a) are fully satisfied. The portion of the obligation paid or accrued at December 31, 2007 was $nil (2006 - $nil).

(g) In the year ended December 31, 2005, the Company received a commitment for financial assistance totaling $800,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. In the year ended December 31, 2007, $510,000 of this commitment has been received (2006 - $510,000). The Company is obligated to pay a royalty (to a maximum of one and a half times the financial assistance received or $1,200,000) on sales of CeaProve® on the following basis: 0% of net sales and net sub-licensing revenues earned until royalty payments have been fully satisfied under the investment agreement in note 6(b), and 5% thereafter until repaid to a maximum of $125,000 per quarter. No royalties have been incurred during the current year. The portion of this obligation paid or accrued as at December 31, 2007 was $nil (2006 - $nil).

7. Employee Future Benefits Obligation

The Company has a partly funded non-registered, non-indexed defined retirement benefit plan for certain senior officers. The retirement benefit is two months' salary for each year they are employed by the Company.

	2007 **$**	2006 $
Unfunded balance, beginning of year	**219,340**	159,946
Current service cost	**37,918**	35,117
Interest costs on accrued obligation	**26,390**	24,277
	283,648	219,340

Management is required to make a significant estimate regarding the discount rate used to determine the accrued employee future benefit obligation. These significant estimates are of a long-term nature, which is consistent with the nature of the employee future benefits. The discount rate used to determine the accrued benefit obligation as at December 31, 2007 was 4.22% (2006 - 4.65%).

An internally restricted cash balance of $50,000 has been deposited in a term deposit to partly fund the obligation.

8. Share Capital

(a) Authorized

Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares

(b) Issued - Class A common shares

	2007		2006	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of year	**37,505,505**	**2,508,059**	37,076,170	2,414,830
Changes during the year:				
Equity placements	**8,684,190**	**2,692,100**	-	-
Exercise of options	**860,368**	**163,877**	429,335	93,229
Equity component of stock based				
Compensation, net	**-**	**11,847**	-	-
Share capital issue costs	**-**	**(359,488)**	-	-
	47,050,063	**5,016,395**	37,505,505	2,508,059

(c) Contributed surplus

The following table summarizes the changes in contributed surplus:

	2007 $	2006 $
Balance at beginning of year	**128,478**	106,888
Stock based compensation expense (note 8 (d)(h))	**143,023**	25,592
Exercise of stock options	**(12,172)**	(4,002)
	259,329	128,478

(d) Stock Options

The Company has granted stock options to eligible employees, directors, officers, and consultants under stock option plans that vest over periods ranging from eighteen months to five years and have a maximum term of five years.

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for stock based compensation. In the current year the Company granted 490,000 (2006 – 525,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock and life of the options. The weighted average risk-free rate used in 2007 was 4.21% (2006 – 4.23%), the weighted average expected volatility was 81% (2006 – 90%) which was based on prior trading activity of the Company's shares, and the weighted average expected life of the options was 5 years. The stock based compensation expense recorded during the current year relating to options granted in 2007 and 2006 was $70,565 (2006 - $24,850).

In addition, the Company recorded stock based compensation expense of $nil (2006 - $742) relating to options granted in 2003.

A summary of the status of the Company's stock options at December 31, 2007 and 2006 and changes during the years ended on those dates is as follows:

	2007		2006	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise price $
Outstanding at beginning of year	**3,082,460**	**0.24**	3,286,795	0.23
Granted	**490,000**	**0.28**	525,000	0.29
Expired	**(404,000)**	**0.23**	(300,000)	0.28
Exercised	**(860,368)**	**0.19**	(429,335)	0.21
Outstanding at end of year	**2,308,092**	**0.26**	3,082,460	0.24
Exercisable at end of year	**1,768,092**	**0.26**	2,757,460	0.23

The following table summarizes information about the Company's stock options outstanding:

		2007	2006
Exercise Price $	Year of Expiration	**Number of Options**	Number of Options
0.28	2012	**390,000**	-
0.30	2012	**100,000**	-
0.30	2011	**225,000**	225,000
0.27	2011	**150,000**	150,000
0.28	2010	**-**	175,000
0.25	2008	**1,443,092**	1,742,292
0.17	2007	**-**	790,168
		2,308,092	3,082,460

(e) Warrants

A summary of the status of the Company's warrants at December 31, 2007 and 2006 and changes during the years ended on those dates is as follows:

	2007		2006	
	Number of Warrants	**Average Exercise Price $**	Number of Warrants	Average Exercise Price $
Outstanding at beginning of year	**774,066**	**0.59**	774,066	0.59
Issued	**4,806,608**	**0.44**	-	-
Expired	**(774,066)**	**0.59**	-	-
Outstanding at end of year	**4,806,608**	**0.44**	774,066	0.59

8. Share Capital (continued)

The following table summarizes information about the Company's warrants outstanding:

Exercise Prices $	Expiration Date	2007 Number Outstanding
0.31	**February 27, 2009**	**464,513**
0.45	**February 27, 2009**	**4,342,095**
		4,806,608

Exercise Prices $	Expiration Date	2006 Number Outstanding
0.60	March 31, 2007*	682,666
0.75	December 28, 2007	91,400
		774,066

*The expiry date on these warrants was extended from September 30, 2006 to March 31, 2007.

(f) On March 31, 2005, the Company completed a private placement share offering of 682,666 Units, for aggregate gross proceeds of $204,800. Each Unit was priced at $0.30 and contained one common share of the Company and one common share purchase warrant entitling the holder thereof to acquire one additional common share at an exercise price of $0.40 per share until September 30, 2005 and thereafter at a price of $0.60 per common share until September 30, 2006. The expiry date on these warrants was extended from September 30, 2006 to March 31, 2007.

(g) On December 28, 2005, the Company completed a Royalty Income Unit offering through the terms described in an Offering Memorandum, which resulted in proceeds of $ 502,700 (914 units at $550 per unit, net of related expense). Each unit is comprised of 100 Class A common shares of the Company ("common shares"), 100 Class A common share purchase warrants ("warrants"), and 100 royalty interests ("royalty interests"). Each warrant entitles the holder thereof to acquire one Class A common share at an exercise price of $0.55 per share until June 28, 2006 and thereafter at a price of $0.75 per share until December 28, 2007. Each royalty interest is a right to receive royalties equal to .000025% of the proceeds received by the Company from the sale or licensing of its active ingredients, animal health products, and CeaProve®, up to a maximum cumulative amount of $10.00 per unit. Proceeds of $457,000 related to royalty interest units and $45,700 for common shares.

(h) On June 27, 2007, the Company completed a brokered private placement unit offering of 8,684,190 units for aggregate gross proceeds of $2,692,100. Each unit was priced at $0.31 and contained one common share of the Company and one half of a common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one additional common share at a price of $0.45 per common share until February 27, 2009. As part compensation of the brokered private placement, a total of 464,513 broker warrants were issued. Each broker warrant entitles the holder to acquire one additional common share at a price of $0.31 per common share. The company has recorded share capital issue costs and a corresponding increase in contributed surplus of $72,458 to reflect the fair value of the warrants. The fair value of the warrants granted was calculated assuming the risk free interest rate was 4.56%, the expected life was 1.7 years and the expected volatility was 86%.

9. Contingencies

(a) In 2002, Ceapro Inc. commenced litigation against a number of defendants in the Court of Queen's Bench of Saskatchewan (the "Saskatchewan Claim"). The defendants against whom the case proceeded to trial were the Government of Saskatchewan, Saskatchewan Government Growth Fund Ltd. (SGGF), Saskatchewan Government Growth Fund Management Corporation (SGGFMC), Gary K. Benson, Janice MacKinnon, and Can-Oat Milling Products Inc. The Saskatchewan Claim raises numerous causes of action against various of the defendants including a claim against all based in civil conspiracy. Ceapro claims damages in excess of $19 million for loss of its investment in Canamino Inc., plus additional damages for loss of goodwill and other losses and for other relief.

As of December 31, 2007, the Saskatchewan Claim had proceeded part way through trial. Subsequently, after the close of Ceapro's case and prior to completion of the trial, all of the defendants filed non-suit applications. By a judgement dated February 19, 2008, four of the six defendants were successful and the trial judge dismissed all the claims against them. The aspect of the claim of civil conspiracy which was plead against all defendants was also dismissed against the remaining two defendants. The other allegations against the remaining two defendants, SGGF and SGGFMC, survived the non-suit application and the trial on those claims continued to the end of the trial on March 27, 2008. With respect to the dismissal ruling, Ceapro has brought an application to have a notice of appeal filed which was heard on April 14, 2008. The decision on this application has been reserved. The final trial judgement is now under reserved decision and a release of that decision is expected before June 30, 2008.

Legal fees and other direct costs associated with the lawsuit for all periods up to and including December 31, 2007 have been funded by the Company only from funds received from lawsuit contributors who, in exchange, have received interests in the proceedings, if any, from the Saskatchewan Claim; and through agreements with the Company's legal counsel to accept a portion of their fees on a contingency basis. Consequently, no costs associated with the lawsuit are included in the Company's financial statements. In addition, the Company was required to post a bond relating to legal costs up to $305,000 which was secured by guarantees of certain members of the current and past Board of Directors and an Officer of the Company. The Company has indemnified the Board of Directors, certain past members of the Board of Directors, and an Officer in relation to the bond.

The outcome of the surviving aspects of the Saskatchewan Claim has not yet been determined. Until all decisions have been rendered, including any appellate rulings, the ultimate financial impact on the company remains uncertain, including any estimate of court costs. Ceapro may be successful in some aspects of the litigation and not others, and this could impact court costs. A significant court cost award against the Company could have a material impact on the Company's financial position. No provision has been made in the financial statements and the full financial impact, if any, will be recorded when the outcome of the litigation is known.

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

10. Sales

Substantially all sales are export sales to five distributors of the Company's products. The Company is therefore economically dependent on those distributors to maintain and expand the volume of product sales to existing and new customers.

11. Other (Loss) Income

	2007 **$**	2006 $
Product Innovation Investment (note 6(f))	**-**	37,250
Foreign exchange (losses) gains	**(121,582)**	32,828
Interest and other income (loss)	**33,040**	(368)
	(88,542)	69,710

12. Income Taxes

(a) Non-capital losses

The Company has accumulated non-capital losses carried forward for income tax purposes of approximately $5,216,900, the benefit of which has not been reflected in these consolidated financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and expire as follows:

	$
2008	570,800
2015	293,400
2026	651,500
2027	3,701,200
	5,216,900

(b) Capital losses

The Company has accumulated capital losses of approximately $6,807,000, which can be carried forward indefinitely to offset future capital gains.

(c) Scientific research and experimental development (SR & ED)

The Company has accumulated an SR & ED expenditure pool of approximately $1,506,000, which can be carried forward indefinitely to be applied against future taxable income.

The Company has accumulated SR & ED investment tax credits of approximately $37,000. These credits may be applied against future federal income taxes payable and expire as follows:

	$
2008	16,000
2009	400
2012	20,600
	37,000

(d) Temporary differences

A future income tax asset reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax asset are as follows:

Income tax effect of deductible temporary differences:	**2007** **$**	2006 $
Non-capital losses and SR & ED expenditures carried forward	**1,983,000**	1,190,000
Net capital losses carried forward	**1,004,000**	1,093,000
SR&ED investment tax credits	**37,000**	156,000
Undepreciated capital cost for tax purposes in excess of net book value	**2,195,000**	3,069,000
Deferred revenue recognized for tax purposes	**129,000**	152,000
Valuation allowance	**(5,348,000)**	(5,660,000)
	-	-

For consolidated financial statement purposes, no future income tax asset has been recorded at December 31, 2007 and 2006 as it is not more likely than not to be realized.

(e) Income tax reconciliation

The Company's consolidated income tax position comprises tax benefits and provisions arising from the respective tax positions of its taxable entities. The Company's income tax provision differs from that calculated by applying statutory rates for the following reasons:

	2007 **$**	2006 $
Income taxes (recovery) based on federal and provincial statutory income tax rate of 32.12% (2006 - 32.50%)	**(446,254)**	(88,516)
Tax effect of expenses that are not deductible	**8,140**	24,072
Tax effect of current year non-capital losses not recognized	**1,188,826**	211,734
Tax effect of property and equipment	**(738,063)**	86,373
Tax effect of deferred revenue recognized	**(12,649)**	(68,871)
Income tax reduction as a result of applying non-capital losses carried forward against current year taxable income	**-**	(164,792)
	-	-

13. Related Party Transactions

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

	2007 **$**	2006 $
Royalties earned by employees and directors	**59,233**	118,098
Sale of lawsuit interests to employees and directors	**25,000**	195,000
Amounts payable to employees and directors included in royalties payable	**13,272**	25,107
Amounts receivable from directors and employees included in accounts receivable	**8,500**	150,000
Prepaid expense (accounts payable) related to director fees	**(36,359)**	44,066

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

14. Segmented Information

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

	2007 **$**	2006 $
North America	**2,364,387**	2,273,867
Other	**1,083,307**	1,036,456
	3,447,694	3,310,323

15. Financial Instruments

The estimated fair value of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, callable debt, and current portions of long-term debt and royalties payable are estimated to approximate their carrying value due to their short-term nature.

The fair value of long-term debt, royalties payable, and employee future benefits obligation are estimated to approximate their carrying value using the Company's incremental borrowing rate or discounted cash flow analysis for similar types of borrowing arrangements.

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates in relation to the resulting accounts receivable and accounts payable and accrued liabilities. The company is exposed, in its normal course of business to credit risk from customers. A significant portion (70%) of the outstanding accounts receivable at December 31, 2007, is due from one customer. No other single party accounts for a significant balance of accounts receivable.

It is management's opinion that the Company is not exposed to significant interest risk from these financial instruments.

16. Lease Commitments

The Company is committed to future annual payments under operating leases for manufacturing facilities and office space as follows:

	$
2008	157,969
2009	175,206
2010	9,266
	$ 428,441

17. Subsequent Events

(a) Subsequent to December 31, 2007, the Company granted 345,000 stock options to employees, including 150,000 to two officers. The options have an exercise price of $0.25 and expire in January 2013.

(b) Subsequent to December 31, 2007 the company has received invoices from legal counsel for services rendered in furtherance of the Saskatchewan Claim in the amount of $649,330. The legal invoices totalled $432,212 for the months of January and February 2008 and $217,118 for March 2008. See Note (9a)

:: Investor Information

JULY 2008

DIRECTORS

Edward Taylor, Chairman
Gilles Gagnon, Acting CEO
Donald Oborowsky
Glenn Rourke
John Zupancic

OFFICERS

Branko Jankovic, CA
Chief Financial Officer
David Fielder, M. Sc.
Vice President Scientific Affairs

STOCK INFORMATION

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CHANGE OF ADDRESS

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

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

FINANCIAL CALENDAR

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

ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

The annual general and special meeting of shareholders will be held on:
Wednesday, August 27, 2008 at 3.00 p.m. at the Sutton Place Hotel, Winterlake Room, 10235 - 101 Street, Edmonton, Alberta.

EQUAL OPPORTUNITY EMPLOYER

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

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