ANNUAL REPORT **2008**

CEAPRO

Nature Enhancing Life®

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Ceapro Inc. develops and uses proprietary extraction technology to produce active ingredients from renewable plant resources. Nature's vitality underlies all of Ceapro's products as the Company fosters natural and sustainable plant materials. We provide "green" and innovative functional ingredients to manufacturers of personal care products, nutraceuticals, and developers of therapeutics.

III Letter to Shareholders

DEAR SHAREHOLDERS,

We are pleased to report on the year 2008's accomplishments and give you an overview of what lies ahead for 2009. In a nutshell, the year 2008 was a year of renewed strategy and focus on our core expertise and on consolidation of our fundamentals related to production operations and quality control.

During this year of turnaround, the focus of the Board and of the Management team has been to rely on the Company's core expertise, *extracting active ingredients from natural sources*, to implement organic revenue growth and work toward achieving profitability in the near future. Our financial results for 2008 are satisfactory in terms of revenues.

Here are some of the positive changes that occurred within the organization in the latter half of 2008, which make us believe that the Company will reap the benefits of increased demand for its unique active ingredients during 2009 and achieve profitability.

OPERATIONAL EFFICIENCY

The Leduc plant was scaled up and fully commissioned. We ran 102 production runs in 2008 compared to 54 production runs in 2007 in two consecutive shifts per day. We actually **doubled** the volume output through improved efficiency, focus on key products, as well as better knowledge of the processes from new skilled employees.

Despite a lower US dollar exchange rate for the first nine months of 2008 and an interruption in the supply of key raw material due to flooding in the Midwest U.S. during July and August, sales reached $4.2 million on the back of better operational efficiencies and growing demand for Ceapro's products. Improved raw materials and extraction processes for glucan production respectively reduced the production time by 33% and ethanol usage by 50% by the end of 2008.

FOCUS ON LEAD PRODUCTS

With a strengthened organizational structure, we actually achieved an increase of 42% in U.S.-denominated sales for targeted products: Beta Glucans, Avenanthramides, and Oat Oil. We are on the path to obtain a GLP (General Laboratory Practice) accreditation for our laboratories, and renewed mechanisms for Quality Assurance and Quality Controls (QA &QC) are firmly in place. This will facilitate the progress towards the development of pharmaceutical grade products for human consumption.

NEW PRODUCTS DEVELOPMENT AND NEW APPLICATIONS

We are actively developing a new bioactive extract for the cosmeceutical market from a unique spearmint variety. This compound, called rosmarinic acid, is a potent anti-inflammatory agent with promising potential applications in nutraceuticals and pharmaceuticals.

We are also working on the development of new orally bioavailable formulations for the Beta Glucans. These formulations should enable us to gradually enter into the nutraceutical field over the next fifteen months, with diabetes being our target indication.

Avenanthramides are poised to become our flagship products for potential therapeutic and medical applications. While we are also developing new oral formulations for these products, we will be seeking partnership agreements with pharmaceutical companies in 2009 to initiate a clinical research program in humans. These are long-term projects.

On a mid-term basis, the transitioning towards nutraceuticals could represent a quantum step in revenues for Ceapro, from an already fast growing trend originating from our active ingredients portfolio of products.

CLINICAL TRIALS COMPARING CEAPROVE® TO THE INDUSTRY STANDARD IN THE DIAGNOSIS OF DIABETES

Early in 2009, we announced an agreement with San Francisco-based IR2DX, a company specialized in the development of clinical assays for diagnostic uses and in the evaluation and treatment of metabolic syndrome, cardiovascular inflammation, and insulin resistance. We are very enthusiastic to directly compare our solid test meal against the industry standard (liquid formulation) in order to demonstrate the superiority of CeaProve® in detecting the diabetic condition more accurately and at a much earlier stage of the disease. We expect to get clinical results during Q2 2010 from a trial that will have enrolled 500 patients upon completion. Should results from this trial be positive, this will greatly increase the interest from the scientific and financial communities towards our test meal CeaProve® for which Ceapro has kept the worldwide marketing rights for the mass market.

FORECAST FOR 2009

Now that we have executed at the operational level, we have set aggressive corporate goals in terms of organic growth given the strong demand for our key products and the expected increased interest from the scientific and financial communities for our value drivers. We are aiming to achieve a jump in sales to between $6 and $7 million with improved margins. Our main goal is to reach profitability in 2009.

As a strategy, while we will aim at increasing market share for our lead products in the cosmeceutical markets either directly or through new partnerships, we will prepare these same products under different formulations to first access the nutraceutical markets on a mid-term basis and then the pharmaceutical markets on a longer term basis.

Near-term investments will be required to support these new developments, but you can rest assured that we will remain scientifically and financially focused on products presenting the highest potential given the risk/reward profile.

Our committed and dedicated people have paved the way for a positive outlook in 2009 through tremendous team efforts in a difficult economic context. We wish to address our most sincere thanks to them as well as to our valued customers and to you, dear shareholders, for your ongoing support and confidence.

GILLES R. GAGNON, M.SC., MBA
DIRECTOR AND ACTING CEO

ED TAYLOR, CGA
CHAIRMAN OF THE BOARD

April 21, 2009

III Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the years ended December 31, 2008 and 2007, financial position as at December 31, 2008, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 21, 2009. The following information should be read in conjunction with the consolidated financial statements as at December 31, 2008, 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, 2008 and 2007, and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Ceapro's future plans and operations as at April 21, 2009, 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 a wholly-owned subsidiary incorporated in the state of Nevada. Ceapro is a growth stage biotechnology company. Our primary business activities relate to the development and commercialization of natural and organic products for medical, cosmetic, and animal health industries using proprietary technology and natural, renewable resources.

Our products include:

- A commercial line of natural and organic active ingredients, including *beta glucan*, *avenanthramides* (*colloidal oat extract*), *oat powder*, *oat oil*, *oat peptides,* and *lupin peptides,* which are marketed to the personal care, cosmetic, 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 manufactured and marketed to veterinarians in Japan and Asia, through agreements with Daisen Sangyo Co. Ltd., and in Canada by Aventix Animal Health Corporation.

Other products and technologies are currently in the research and development or pre-commercial stage. These 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 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; and
- An extension to the *active ingredients* product range offering, through new plant extract products.

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

- Increasing sales and expanding markets for active ingredients;
- Developing and marketing additional high-value proprietary therapeutic products;
- Outlicensing *CeaProve*® to maximize shareholder value; and
- Advancing new technology to a partnering or spin out position.

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 primarily generated from the sale of active ingredients 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.

The Company's consolidated financial statements for the year ended December 31, 2008 have been prepared on a going concern basis, which assumes that the Company will continue to operate 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's operations. The Company potentially faces material financial exposure if it is unable to make timely payments it has agreed to in a lawsuit settlement agreement. The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, achieving profitability, and generating positive cash flow. There can be no assurance that the Company will be able to access capital when needed, achieve profitability, or generate positive cash flow.

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.

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

A) CREDIT RISK:

The Company makes sales to customers that are well-established and well-financed within their respective industries. There is always a risk relating to the financial stability of customers and their ability to pay, but management views this risk as minimal. Approximately 94% of accounts receivable are due from two customers.

B) LIQUIDITY RISK:

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The long-term debt matures in January 2013. It is the intention of the Company that refinancing will be negotiated at that time should it be required. The Company is required to make payments totaling $705,000 in 2009 pursuant to a lawsuit settlement agreement. In the event it defaults on required payments, the Company faces the potential of a material adverse court cost award. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. In order to manage this liquidity risk, the Company regularly reviews its aged accounts receivable listing to ensure prompt collections. The Company regularly reviews its cash availability; and whenever conditions permit, the excess cash is deposited in short-term interest bearing instruments to generate revenue while maintaining liquidity.

C) MARKET RISK:

Market risk is comprised of interest rate risk and foreign currency risk. The Company's exposure to market risk is as follows:

i) Foreign currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The Company is exposed to foreign currency fluctuations because a substantial portion of sales are denominated in U.S. dollars. A one percent change in the Canadian/U.S. dollar exchange rate will impact revenues by approximately $39,700 annually based upon 2008 U.S. dollar sales of $3,974,000. The Company does purchase some materials and services in U.S. dollars and to a lesser extent in Euros. This amount will vary by product sold.

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company.

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (USD)	
		-1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial assets			
Accounts receivable	$426,500	$4,265	$(4,265)
Financial liabilities			
Accounts payable and accrued liabilities	$301,000	$(3,010)	$3,010
Total increase (decrease)		$1,255	$(1,255)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2008.

ii) Interest rate

The Company has minimal interest risk because its long-term debt is a fixed rate of 5.49%. However, in the event of a default, the rate would increase to 7.49% and result in an increase in the required monthly principal and interest payment by $1,541.

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 Canadian GAAP selected by management and approved by the Board of Directors. The assets, liabilities, revenues, and expenses reported in the Company's consolidated financial statements depend to varying degrees on estimates made by management. An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain and if different estimates that could have been used would have a material impact. The significant areas requiring the use of management estimates relate to provisions made for inventory valuation, amortization of property and equipment, 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, 2008, the Company adopted two new CICA standards, Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation" which replaced Section 3861 "Financial Instruments - Disclosure and Presentation". The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carried forward the former presentation requirements. The Company determined that the implementation of these new standards did not have any impact on the Company's financial position or results of operations. The disclosures related to these sections are reported in note 15 of the Company's consolidated financial statements for the year ended December 31, 2008.

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031 "Inventories". This Section related to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The Company determined that the implementation of this Section did not have a material impact on its consolidated financial statements for the year ended December 31, 2008.

Effective January 1, 2008, the Company adopted the revised CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", which was amended to provide guidance on the assessment of whether an entity is a going concern and related disclosures. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements for the year ended December 31, 2008.

Effective January 1, 2008, the Company adopted the new Handbook Section 1535 "Capital Disclosures". This Section establishes standards for disclosing information about an entity's capital and how it is managed in order that a user of the financial statements may evaluate the entity's objectives, policies, and processes for managing capital. The Company's capital disclosures are reported in note 17 of the Company's consolidated financial statements for the year ended December 31, 2008.

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 consolidated financial statements for the years ended December 31, 2008 and December 31, 2007.

The adoption of these new standards concerning financial instruments and comprehensive income has had no material impact on the consolidated financial statements for the years ended December 31, 2008 and December 31, 2007.

FUTURE ACCOUNTING PRONOUNCEMENTS

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in GAAP, as used by public entities, being converged with International Financial Reporting Standards ("IFRS") over a transitional period. In February 2008, the AcSB confirmed January 1, 2011 as the date that Canadian public entities will be required to start reporting under IFRS. Companies will be required to provide qualitative disclosure on the key elements and timing of their transition plan to IFRS no later than their 2008 annual Management Discussion and Analysis. Qualitative disclosure of the impact of the transition is required in companies' 2009 interim and annual Management Discussion and Analysis. Comparative financial information for 2010 will be required when companies begin reporting 2011 results under IFRS.

During 2009 the Company will begin preparing its detailed IFRS conversion plan. This plan will be aimed at identifying the differences between IFRS and the Company's current accounting policies, assessing the impact on the Company's financial reporting and, when necessary, analyzing alternative policies that could be adopted. It is expected that these activities will commence in the second half of 2009.

During 2010 the Company plans to prepare financial statements under IFRS for all interim and annual reporting periods after the preparation of its financial statements prepared in accordance with GAAP. The 2010 financial statements prepared under IFRS will not be released to the public in 2010, but will provide comparative figures required for 2011 reporting.

In February 2008, The CICA issued new Handbook Section 3064 "Goodwill and Intangible Assets", replacing Handbook Section 3062 "Goodwill and Other Intangible Assets" and Handbook Section 3450 "Research and Development Costs". The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. This section establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Handbook Section 3062. The Company has determined that the adoption of this new section will not have a material impact on its consolidated financial statements.

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

SELECTED ANNUAL INFORMATION

$000S EXCEPT PER SHARE DATA	**2008**	2007	2006
TOTAL REVENUES	**4,228**	3,448	3,310
NET LOSS AND COMPREHENSIVE LOSS	**(3,599)**	(1,389)	(272)
BASIC NET LOSS PER COMMON SHARE	**(0.08)**	(0.03)	(0.01)
DILUTED NET LOSS PER COMMON SHARE	**(0.08)**	(0.03)	(0.01)
TOTAL ASSETS	**3,287**	4,588	2,063
TOTAL LIABILITIES	**5,219**	4,588	1,759

During 2008 there was a 23% increase in total revenues.

In 2008, the net loss increased by $2,210,000. Revenues increased $780,000 and the gross margin decreased $67,000. There was an increase in general and administration expenses of $430,000, lower sales and marketing costs in the amount of $34,000, and increased research and development costs of $195,000. Expenses for disputed legal fees and a legal settlement totaling $1,466,000 were recorded in 2008.

Total revenues in the fourth quarter were $1,049,000, an increase of 35% from 2007 fourth quarter revenues of $776,000. The net loss for the fourth quarter was $1,415,000. There was an increase in general and administration expenses of $83,000, a decrease of sales and marketing costs of $63,000, and an increase in research and development costs of $214,000 during the fourth quarter. Legal settlement costs of $725,000 were recorded in the fourth quarter.

REVENUE

$000S	**2008**	2007	CHANGE
TOTAL REVENUES	**4,228**	3,448	23%

PRODUCT SALES

In 2008, active ingredient sales rose $780,000 or 23% as a result of increased demand and sales of active ingredients. 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 in 2008 were represented by the sale of pre-mixes containing Ceapro active ingredients. Ceapro did not manufacture any bottled finished veterinary products in 2008.

The fourth quarter revenues of $1,049,000 represent record fourth quarter revenues for the Company. The 35% increase in revenue from $776,000 in 2007 reflect higher volumes of products shipped and the stronger value of the US dollar versus the Canadian dollar in the fourth quarter of 2008.

EXPENSES

COST OF GOODS SOLD AND GROSS MARGINS

$000S	**2008**	2007	CHANGE
SALES	**4,228**	3,448	
COST OF GOODS SOLD	**2,641**	1,794	
GROSS MARGIN	**1,587**	1,654	-4%
GROSS MARGIN %	**38%**	48%	

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

For 2008, the gross margin percentage decreased to 38% from 48%, primarily as a result of poor availability of quality raw material inputs, the effects of labour 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 in 2008 included the hiring of additional plant operators to permit a second shift of production activities, inflationary pressures, start up adjustments from new equipment installed in 2007, and supply interruptions from critical raw material suppliers due to floods in the summer in the Midwestern United States.

The gross margin percentage in the fourth quarter was 37%, up slightly from 36% in 2007.

GENERAL AND ADMINISTRATION

$000S	**2008**	2007	CHANGE
SALARIES AND BENEFITS	**490**	370	
BOARD OF DIRECTORS COMPENSATION	**153**	143	
INVESTOR RELATIONS	**189**	207	
INSURANCE	**114**	120	
LEGAL	**145**	64	
OTHER	**598**	355	
TOTAL GENERAL AND ADMINISTRATION EXPENSES	**1,689**	1,259	34%

General and administration expenses for 2008 increased $430,000 or 34% primarily due to an increase in salaries and benefits due to the addition of additional positions, inflationary increases to retain staff, and higher stock option expenses. Legal costs increased primarily due to costs related to filing an appeal of a legal judgment and engaging new legal counsel to assess the Company's options with respect to the legal judgement. Other expenses increased as a result of higher consulting fees as a result of a corporate strategic review and the appointment of an Acting President and CEO in July 2008, and higher travel costs as a result of this appointment.

General and administration costs for the fourth quarter increased $83,000 or 25% from 2007.

SALES AND MARKETING

$000S	**2008**	2007	CHANGE
SALARIES AND BENEFITS	**285**	308	
OTHER	**100**	111	
TOTAL SALES AND MARKETING	**385**	419	-8%

Sales and marketing expenses decreased by $34,000 or 8% largely due to the completion of a contract for the Vice President of Business Development that was not renewed. Other expenditures were lower because of expenditures in 2007 for veterinary products that were not incurred in 2008.

Sales and Marketing expenses decreased $63,000 in the fourth quarter of 2008 versus 2007. This represented a 53% decrease and reflects lower marketing activities.

ROYALTIES

$000S	**2008**	2007	CHANGE
ROYALTY INTEREST UNITS	**448**	365	
ROYALTY LICENSE AGREEMENTS	**2**	-	
LESS: RECOGNITION OF DEFERRED ROYALTY REVENUE	**(48)**	(39)	
TOTAL ROYALTIES EXPENSES	**402**	326	23%

As at December 31, 2008, royalty investors receive royalties equal to 10.59% (2007 – 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 in 2009 is expected to decrease as two royalties totaling 8.31% are expected to be fully accrued in the first half of 2009. 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.

Royalty expense in the fourth quarter increased $28,000 reflecting higher revenue from product sales and royalties due under a license agreement.

BIOENERGY FEASIBILITY STUDY

During the year ended December 31, 2008, work was completed on the bioenergy feasibility study that was commenced in 2007. During the year ended December 31, 2008, net costs of $5,868 (net of government funding of $75,854) had been incurred to complete the study.

After the completion of the study, the Company determined it would not continue it activities in the bioenergy market.

INTEREST

$000S	**2008**	2007	CHANGE
INTEREST ON CALLABLE DEBT, CONVERTIBLE DEBENTURES, AND OTHER	**-**	1	
INTEREST ON LONG-TERM DEBT	**84**	43	
TOTAL INTEREST EXPENSE	**84**	44	91%

Interest expense decreased $40,000 due to higher levels of long-term debt outstanding for the full year.

Interest expense increased $8,000 in the fourth quarter of 2008 from 2007 because the loan was not fully drawn during the entire fourth quarter in 2007.

AMORTIZATION

Amortization expense increased by $216,000 or 180%, due to a full year of amortization recorded in 2008 for the major manufacturing expansion completed in late 2007.

RESEARCH AND PRODUCT DEVELOPMENT

$000S	**2008**	2007	CHANGE
SALARIES AND BENEFITS	**341**	136	
PRODUCT DEVELOPMENT - CEAPROVE®	**143**	422	
OTHER	**407**	138	
RESEARCH AND PRODUCT DEVELOPMENT EXPENDITURES	**891**	696	28%

Net research and product development expenses increased $195,000 or 28%. Salaries and wages increased due to the hiring of additional personnel, salary increases, and higher stock option expenses. Other increases were due to the cost of technology transfer related to engaging a contract manufacturer to produce active ingredients to assist with meeting demand for the Company's active ingredients. There was a decrease in CeaProve® expenditures due to a strategic decision made to out-license this technology.

Research and development expenses in the fourth quarter rose $214,000 or 91% in 2008 from 2007. The large increase in the fourth quarter occurred because all technology transfer costs were incurred in this quarter.

OTHER INCOME (EXPENSES)

$000S	**2008**	2007	CHANGE
INTEREST AND OTHER INCOME (LOSSES)	**(13)**	33	
FOREIGN EXCHANGE GAINS (LOSSES)	**86**	(122)	
TOTAL OTHER INCOME (EXPENSES)	**73**	(89)	182%

Other income was higher in 2008 due to foreign exchange gains of $86,000 offset by other losses net of interest income of $13,000. The United States dollar strengthened strongly against Canadian dollar in the fourth quarter 2008 resulting in foreign currency gains. Weaker United States dollar exchange rates versus Canadian dollars in 2007 resulted in foreign currency losses in the amount of $122,000 in 2007.

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.

	2008				2007			
$000S EXCEPT PER SHARE DATA	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
TOTAL REVENUES	**1,049**	**871**	**1,456**	**852**	776	591	1,119	962
NET (LOSS) INCOME	**(1415)**	**(488)**	**(1,087)**	**(609)**	(528)	(602)	(237)	(22)
BASIC (LOSS) INCOME PER SHARE	**(0.04)**	**(0.01)**	**(0.02)**	**(0.01)**	(0.01)	(0.01)	(0.01)	(0.00)
DILUTED (LOSS) INCOME PER SHARE	**(0.04)**	**(0.01)**	**(0.02)**	**(0.01)**	(0.01)	(0.01)	(0.01)	(0.00)

Ceapro's quarterly sales and results fluctuate due to variations in the timing of product sales.

SOURCES AND USES OF CASH

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

($000S)	**2008**	2007
SOURCES OF FUNDS:		
FUNDS GENERATED FROM OPERATIONS (CASH FLOW)	**(3,128)**	(1,135)
CHANGE IN NON-CASH WORKING CAPITAL ITEMS	**2,069**	87
SHARE CAPITAL ISSUED, NET OF COSTS	**-**	2,569
LONG TERM DEBT PROCEEDS	**-**	1,612
	(1,059)	3,133
USES OF FUNDS:		
PURCHASE OF PROPERTY AND EQUIPMENT AND DEPOSITS	**(276)**	(1,602)
DEFERRED ROYALTY REVENUE	**(48)**	(39)
CHANGE IN LONG-TERM DEBT	**(114)**	(473)
PURCHASE OF LICENSE	**(30)**	-
ROYALTIES PAYABLE	**261**	(48)
	(207)	(2,162)
NET CHANGE IN CASH	**(1,266)**	971

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.

Agricultural Financial Services Corporation has provided a term loan of up $1,612,406 for plant and equipment financing. 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 21, 2009 and December 31, 2008 were 47,050,063 (December 31, 2007 – 47,050,063). In addition, 1,810,000 stock options (December 31, 2007 – 2,308,092) and 4,806,608 warrants (December 31, 2007 – 4,806,608) were outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' equity of $1,554,000 at December 31, 2007 decreased to a shareholders' deficiency of ($1,931,000) at December 31, 2008.

Ceapro's working capital position was ($2,391,000) at December 31, 2008, a decrease of $3,816,000 from December 31, 2007.

The Company will be required to pay $705,000 in 2009 pursuant to a lawsuit settlement agreement. An additional $187,000 will be required to be paid to the Company's former President and Chief Executive Officer.

To meet future requirements, Ceapro may raise additional capital 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 capital 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.

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

RELATED PARTY TRANSACTIONS

During 2008, $57,461 of royalties were earned by employees and Directors from their investment in previous Ceapro royalty offerings, and $11,271 was earned by former employees. At December 31, 2008, $45,882 of royalties were payable to employees and Directors. Consulting fees of $75,000 were paid to a company controlled by a director. 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.

COMMITMENTS AND CONTINGENCIES

a) 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 claimed 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, 2008, all claims related to the Saskatchewan Claim have been dismissed. The Company faced a potentially material legal cost exposure as a result of dismissal of all claims. Appeal proceedings with respect to the Final Trial Judgement were commenced during the year.

Legal fees and other direct costs associated with the lawsuit have been funded for all periods prior to December 31, 2007 by the Company from funds received from lawsuit contributors who, in exchange, would receive an interest in the proceeds (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. There has been no funding from lawsuit contributors to pay any legal fees invoiced in 2008 and management is of the opinion that these legal fees will only be required to be paid upon receipt of funding from lawsuit contributors or proceeds from the litigation. The amount of these disputed fees is $741,283 and this amount has been accrued in the financial statements and reflected in SGGF legal fees on the balance sheet.

In addition, the Company was required to post a bond with the court in the amount of $305,000, which was secured by guarantees of certain members of the current and past Board of Directors of the Company. The Company has indemnified the Board of Directors and certain past members of the Board of Directors in relation to the bond.

Subsequent to the year end, the Company and defendants reached an agreement with respect to the settlement of the appeal proceedings and the legal costs payable to the defendants. The Company agreed to consent to the dismissal of all appeal proceedings and to pay to the defendants $705,000 in legal costs. See note 18. The Company has also accrued $20,000 in additional legal costs. These accruals are reflected in SGGF legal fees on the balance sheet.

(b) During the year ended December 31, 2008, the Company entered into a licensing agreement with the University of Guelph for an exclusive variety of a mint. The Company paid a licensing fee of $30,000 and will amortize the license over 10 years. The Company is obligated to pay the University an amount equal to eight percent of net sales from products derived from the mint plants subject to minimum payments as follows:

2009	**$ 5,760**
2010	**5,760**
2011	**12,960**
2012	**20,160**
2013 to 2017	**208,800**
	$253,440

For 2008 the Company recognized a minimum payment of $2,400 in royalty expense.

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

OUTLOOK

Despite challenging economic conditions in the past year and the severe economic recession currently impacting the global economy, Ceapro's outlook is positive. Ceapro anticipates robust sales 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 and technology improvements become 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.

Ceapro has made strides in the development of CeaProve®, its pre-diabetes screening product. Pursuant to the strategic review, the Company has out-licensed the technology for the medical market and is currently engaged in discussions with other parties. There is no assurance that further transactions will be completed.

During 2009, Ceapro will continue to further develop new products for its Active Ingredient business and is reviewing in-licensing opportunities that have been presented to the Company in recognition of the strength of Ceapro's core extraction technology and in recognition of Ceapro's proven track record of product commercialization. The sale of additional new extracts is expected to drive increases in revenues and enhance profitability in the future.

Ceapro intends to implement its operating plans in a measured and responsible manner. Additional working capital is required to support the expected increases in the volume of sales of existing products, the introduction of new products to existing and new markets, and the further development of new technology. The Company cautions that the availability of these additional investments may affect the pace of growth.

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.

III 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 "Gilles Gagnon"
Acting President and Chief Executive Officer

SIGNED "Branko Jankovic, CA"
Chief Financial Officer

AUDITORS' REPORT

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

We have audited the consolidated balance sheets of Ceapro Inc. as at December 31, 2008 and 2007, 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, 2008 and 2007, 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 16, 2009

SIGNED: "Stout & Company LLP"
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

	December 31 2008 $	December 31 2007 $
ASSETS		
Current assets		
Cash and cash equivalents	**16,525**	1,282,326
Accounts receivable	**551,594**	708,165
Inventories (note 3)	**406,967**	156,584
Prepaid expenses and deposits	**82,568**	130,100
	1,057,654	2,277,175
Restricted cash (note 7)	**-**	50,000
License (note 9b)	**30,000**	-
Property and equipment (note 4)	**2,199,740**	2,260,418
	3,287,394	4,587,593
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**1,150,814**	494,413
Current portion of deferred revenue	**57,125**	107,007
Current portion of long-term debt (note 5)	**131,582**	112,638
Currrent portion of royalties payable (note 6)	**455,549**	138,185
Current portion of employee future benefits obligtion (note 7)	**187,000**	-
SGGF legal fees (note 9a)	**1,466,283**	-
	3,448,353	852,243
Deferred Royalty Revenue	**272,944**	328,377
Employee Future Benefits Obligation (note 7)	**117,012**	283,648
Long-Term Debt (note 5)	**1,366,232**	1,499,768
Royalties Payable (note 6)	**13,981**	69,905
	5,218,522	3,033,941
SHAREHOLDERS' (DEFICIENCY) EQUITY		
Share Capital (note 8b)	**5,016,395**	5,016,395
Contributed Surplus (note 8c)	**374,018**	259,329
Deficit	**(7,321,541)**	(3,722,072)
	(1,931,128)	1,553,652
	3,287,394	4,587,593

CONTINGENCIES (note 9a and 9c)

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	2008 $	2007 $
REVENUE		
Sales (note 10)	**4,228,073**	3,447,694
Cost of goods sold	**2,641,188**	1,793,997
Gross margin	**1,586,885**	1,653,697
EXPENSES		
General and administration	**1,688,978**	1,258,885
Royalties	**401,876**	325,733
Sales and marketing	**385,132**	418,816
Amortization	**336,569**	120,444
Interest on long-term debt	**83,651**	42,954
Interest on callable debt and other	**-**	875
	2,896,206	2,167,707
Income (loss) from operations	**(1,309,321)**	(514,010)
OTHER INCOME (EXPENSES)		
Research and product development	**(891,382)**	(695,661)
Bioenergy Feasibility Study	**(5,868)**	(91,121)
Other income (loss) (note 11)	**73,385**	(88,542)
Loss before SGGF legal fees	**(2,133,186)**	(1,389,334)
SGGF legal fees (note 9a)	**(1,466,283)**	-
Income taxes (note 12)		
Current	**-**	-
Reduction as a result of applying non-capital losses carried forward against the current year's taxable income	**-**	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	**(3,599,469)**	(1,389,334)
Deficit, beginning of year	**(3,722,072)**	(2,332,738)
DEFICIT, END OF YEAR	**(7,321,541)**	(3,722,072)
Net loss per common share:		
Basic	**$(0.08)**	$(0.03)
Diluted	**$(0.08)**	$(0.03)
Weighted average number of common shares outstanding	**47,050,063**	42,337,607

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31	2008 $	2007 $
OPERATING ACTIVITIES		
Net loss and comprehensive loss for the year	**(3,599,469)**	(1,389,334)
Items not affecting cash and cash equivalents		
Amortization	**336,569**	120,444
Recognition of deferred royalty revenue	**(48,306)**	(39,390)
Employee future benefits obligation	**20,364**	64,308
Stock based compensation	**114,689**	70,241
	(3,176,153)	(1,173,731)
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Restricted cash	**50,000**	(50,000)
Accounts receivable	**156,571**	(73,909)
Inventories	**(250,383)**	3,872
Prepaid expenses and deposits	**47,532**	48,651
Accounts payable and accrued liabilities	**656,401**	158,797
Deferred revenue	**(57,009)**	10
SGGF legal fees	**1,466,283**	-
	2,069,395	87,421
	(1,106,758)	(1,086,310)
INVESTING ACTIVITIES		
Purchase of license	**(30,000)**	-
Purchase of property and equipment	**(275,891)**	(1,770,233)
Deposits on property and equipment	-	167,828
	(305,891)	(1,602,405)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(114,592)**	(436,731)
Repayment of callable debt	-	(36,313)
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
Share capital issue costs	-	(287,030)
Increase (decrease) in royalties payable	**261,440**	(48,193)
	146,848	3,660,115
Increase (decrease) in cash and cash equivalents	**(1,265,801)**	971,400
Cash and cash equivalents at beginning of year	**1,282,326**	310,926
Cash and cash equivalents at end of year	**16,525**	1,282,326
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash on deposit with banks	**16,525**	8,047
CAD$ term deposit	-	1,000,000
US$ term deposit	-	274,279
	16,525	1,282,326
SUPPLEMENTARY INFORMATION		
Interest paid	**83,651**	43,829
Royalties paid	**172,356**	375,926

See accompanying notes

III 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.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and 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's operations. The Company potentially faces material financial exposure if it is unable to make timely payments it has agreed to in a lawsuit settlement agreement (see note 18). The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, achieving profitability, and generating positive cash flow. There can be no assurance that the Company will be able to access capital when needed, achieve profitability, or generate positive cash flow.

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 ("GAAP") 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 relates to provisions made for inventory valuation, 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 net realizable value 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 net realizable value on a first-in, first-out basis.

(F) LICENSES

Licenses are recorded at cost and are amortized over the life of the license.

(G) 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

In 2007, 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 was to 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.

(H) 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.

(I) 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.

(J) 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.

(K) 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.

(L) 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.

(M) 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.

(N) 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.

(O) 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 and 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.

(P) 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.

(Q) 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.

(R) RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2008, the Company adopted two new CICA standards, Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation" which replaced Section 3861 "Financial Instruments - Disclosure and Presentation". The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carried forward the former presentation requirements. The Company determined that the implementation of these new standards did not have any impact on the Company's financial position or results of operations. The disclosures related to these sections are reported in note 15 of these consolidated financial statements.

2. ACCOUNTING POLICIES (CONTINUED)

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031 “Inventories”. This Section related to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The Company determined that the implementation of this Section did not have a material impact on its consolidated financial statements.

Effective January 1, 2008, the Company adopted the revised CICA Handbook Section 1400, “General Standards of Financial Statement Presentation”, which was amended to provide guidance on the assessment of whether an entity is a going concern and related disclosures. The adoption of this new standard did not have a material impact on these consolidated financial statements.

Effective January 1, 2008, the Company adopted the new Handbook Section 1535 “Capital Disclosures”. This Section establishes standards for disclosing information about an entity’s capital and how it is managed in order that a user of the financial statements may evaluate the entity’s objectives, policies, and processes for managing capital. The Company’s capital disclosures are reported in note 17 of these consolidated financial statements.

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 consolidated financial statements for the years ended December 31, 2008 and December 31, 2007.

The adoption of these new standards concerning financial instruments and comprehensive income has had no material impact on the consolidated financial statements for the years ended December 31, 2008 and December 31, 2007.

(S) FUTURE ACCOUNTING PRONOUNCEMENTS

In 2006 , Canada’s Accounting Standards Board (“AcSB”) ratified a strategic plan that will result in GAAP, as used by public entities, being converged with International Financial Reporting Standards (“IFRS”) over a transitional period. In February 2008, the AcSB confirmed January 1, 2011 as the date that Canadian public entities will be required to start reporting under IFRS. Companies will be required to provide qualitative disclosure on the key elements and timing of their transition plan to IFRS no later than their 2008 annual Management Discussion and Analysis. Qualitative disclosure of the impact of the transition is required in companies’ 2009 interim and annual Management Discussion and Analysis. Comparative financial information for 2010 will be required when companies begin reporting 2011 results under IFRS.

During 2009 the Company will begin preparing its detailed IFRS conversion plan. This plan will be aimed at identifying the differences between IFRS and the Company’s current accounting policies, assessing the impact on the Company’s financial reporting and, when necessary, analyzing alternative policies that could be adopted.

In February 2008, The CICA issued new Handbook Section 3064 "Goodwill and Intangible Assets", replacing Handbook Section 3062 "Goodwill and Other Intangible Assets" and Handbook Section 3450 "Research and Development Costs". The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. This section establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Handbook Section 3062. The Company has determined that the adoption of this new section will not have a material impact on its consolidated financial statements.

3. INVENTORIES

	2008 **$**	2007 $
Raw materials	**200,548**	113,138
Work in progress	**98,752**	1,829
Finished goods	**107,667**	41,617
	406,967	156,584

Inventories expensed in cost of goods sold during the year ended December 31, 2008 is $1,475,912 (2007 - $997,120). During the year ended December 31, 2008, the Company decreased the carrying value of inventory by $28,663 (2007 - nil) due to lower estimated product yields from certain raw materials and certain finished products reaching their expiry date.

4. PROPERTY AND EQUIPMENT

	2008		
	Cost $	**Accumulated Amortization $**	**Net Book Value $**
Manufacturing equipment	**2,786,259**	**788,587**	**1,997,672**
Office equipment	**75,611**	**48,735**	**26,876**
Computer equipment and software	**231,436**	**117,558**	**113,878**
Leasehold improvements	**103,435**	**42,121**	**61,314**
	3,196,741	**997,001**	**2,199,740**

	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

5. LONG-TERM DEBT

	2008 **$**	2007 $
Loan, payable at $17,384 per month, principal and interest at 5.49%, secured by a general security agreement, due January, 2013.	**1,497,814**	1,612,406
Less current portion	**131,582**	112,638
	1,366,232	1,499,768

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

	$
2009	131,582
2010	138,806
2011	146,426
2012	154,465
2013	926,535
	1,497,814

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 security agreement also includes a standard subjective acceleration clause for material adverse events. The Company is in compliance with all terms and conditions.

6. ROYALTIES PAYABLE

	2008 **$**	2007 $
Royalties payable pursuant to financial assistance received (note 6 (a))	**111,844**	125,829
Royalties payable pursuant to royalty interest offering (note 6 (c), (d), and (e))	**357,686**	82,261
	469,530	208,090
Less current portion	**455,549**	138,185
	13,981	69,905

(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, 2008 was $329,764 (2007 - $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. The Company has deferred payment of the royalties due for the periods ended March 31, June 30, and September 30, 2008. These amounts total $41,943.

(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. As at December 31, 2008, $225,000 (2007 - $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, 2008 $nil (2007 - $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, 2008 was $nil (2007 - $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, 2008 was $886,403 (2007 - $688,077)

(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, 2008 was $585,098 (2007 - $452,252).

(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, 2008 was $251,032 (2007 - $154,421).

(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. As at December 31, 2008, $362,250 (2007 - $362,500) of the commitment has been received. 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, 2008 was $nil (2007 - $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. As at December 31, 2008, $510,000 of this commitment has been received (2007 - $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 31,2008 was $nil (2007 - $nil).

7. EMPLOYEE FUTURE BENEFITS OBLIGATION

The Company has an unfunded non-registered, non-indexed defined retirement benefit plan for certain officers. The retirement benefit is two months' salary for each year they are employed by the Company. During the year ended December 31, 2008, pursuant to a termination agreement with the Company's former President and Chief Executive Officer, the Company has settled the benefit obligation with this senior officer resulting in a curtailment loss of $68,751. The Company is obligated to complete all required payments under the termination agreement by December 31, 2009 and therefore is disclosing the remaining obligation to this individual of $187,000 as current. A restricted cash balance from the prior year of $50,000 was utilized to make payments on this obligation during the year.

Accrued benefit obligation	**2008** **$**	2007 $
Unfunded balance, beginning of year	**283,648**	219,340
Curtailment loss	**68,751**	-
Benefits paid	**(67,361)**	-
Current service cost	**14,496**	37,918
Interest costs on accrued benefit obligation	**4,478**	26,390
	304,012	283,648
Less current portion	**(187,000)**	-
	117,012	283,648

Elements of defined benefit costs recognized in the year	**2008** **$**	2007 $
Current service cost	**14,496**	37,018
Interest cost on accrued benefit obligation	**4,478**	20,390
Curtailment loss	**68,751**	-
	87,725	57,408

Management is required to make an estimate regarding the discount rate used to determine the accrued benefit obligation. This estimate is 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, 2008 was 4.19% (2007 - 4.22%).

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

	2008		2007	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of year	**47,050,063**	**$5,016,395**	37,505,505	$2,508,059
Changes during the year:				
Equity placements	**-**	**-**	8,684,190	2,692,100
Exercise of options	**-**	**-**	860,368	163,877
Equity component of stock based compensation, net	**-**	**-**	-	11,847
Share capital issue costs	**-**	**-**	-	(359,488)
	47,050,063	**$5,016,395**	47,050,063	$5,016,395

(C) CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	2008 $	2007 $
Balance at beginning of year	**259,329**	128,478
Stock based compensation expense (note 8 (d))	**114,689**	143,023
Exercise of stock options	**-**	(12,172)
	374,018	259,329

(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 twelve 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 1,225,000 (2007 - 490,000) 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 2008 was 3.22% (2007 - 4.21%), the weighted average expected volatility was 86% (2007 - 81%) 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 2008, 2007, and 2006 was $114,689 (2007 - $70,565).

8. SHARE CAPITAL (CONTINUED)

A summary of the status of the Company's stock options at December 31, 2008 and 2007 and changes during the years ended on those dates is as follows:

	2008		2007	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise price $
Outstanding at beginning of year	**2,308,092**	**0.26**	3,082,460	0.24
Granted	**1,225,000**	**0.16**	490,000	0.28
Expired	**(1,723,092)**	**0.24**	(404,000)	0.23
Exercised	**-**	**-**	(860,368)	0.19
Outstanding at end of year	**1,810,000**	**0.21**	2,308,092	0.26
Exercisable at end of year	**786,000**	**0.22**	1,768,092	0.26

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

		2008	2007
Exercise Price $	Year of Expiration	**Number of Options**	Number of Options
0.12	2013	**780,000**	-
0.25	2013	**240,000**	-
0.28	2012	**390,000**	390,000
0.30	2012	**100,000**	100,000
0.30	2011	**150,000**	225,000
0.27	2011	**150,000**	150,000
0.25	2008	**-**	1,443,092
		1,810,000	2,308,092

(E) WARRANTS

A summary of the status of the Company's warrants at December 31, 2008 and 2007 and changes during the years ended on those dates is as follows:

	2008		2007	
	Number of Warrants	**Average Exercise Price $**	Number of Warrants	Average Exercise Price $
Outstanding at beginning of year	**4,806,608**	**0.44**	774,066	0.44
Issued	**-**	**-**	4,806,608	-
Expired	**-**	**-**	(774,066)	-
Outstanding at end of year	**4,806,608**	**0.44**	4,806,608	0.44

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

Exercise Prices $	**Expiration Date**	**2008 Number Outstanding**	2007 Number Outstanding
0.31	**February 27, 2009**	**464,513**	464,513
0.45	**February 27, 2009**	**4,342,095**	4,342,095
		4,806,608	4,806,608

(f) 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 AND COMMITMENTS

(a) 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 claimed 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, 2008, all claims related to the Saskatchewan Claim have been dismissed. The Company faced a potentially material legal cost exposure as a result of dismissal of all claims. Appeal proceedings with respect to the Final Trial Judgment were commenced during the year.

Legal fees and other direct costs associated with the lawsuit have been funded for all periods prior to December 31, 2007 by the Company from funds received from lawsuit contributors who, in exchange, would receive an interest in the proceeds (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. There has been no funding from lawsuit contributors to pay any legal fees invoiced in 2008 and management is of the opinion that these legal fees will only be required to be paid upon receipt of funding from lawsuit contributors or proceeds from the litigation. The amount of these disputed fees is $741,283 and this amount has been accrued in the financial statements and reflected in SGGF legal fees on the balance sheet.

In addition, the Company was required to post a bond with the court in the amount of $305,000 which was secured by guarantees of certain members of the current and past Board of Directors of the Company. The Company has indemnified the Board of Directors and certain past members of the Board of Directors in relation to the bond.

Subsequent to the year end, the Company and defendants reached an agreement with respect to the settlement of the appeal proceedings and the legal costs payable to the defendants. The Company agreed to consent to the dismissal of all appeal proceedings and to pay to the defendants $705,000 in legal costs. See note 18. The Company has also accrued $20,000 in additional legal costs. These accruals are reflected in SGGF legal fees on the balance sheet.

9. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(b) During the year ended December 31, 2008, the Company entered into a licensing agreement with the University of Guelph for an exclusive variety of a mint. The Company paid a licensing fee of $30,000 and will amortize the license over 10 years. The Company is obligated to pay the University an amount equal to eight percent of net sales from products derived from the mint plants subject to minimum payments as follows:

	$
2009	5,760
2010	5,760
2011	12,960
2012	20,160
2013 to 2017	208,800
	253,440

For 2008, the Company recognized a minimum payment of $2,400 in royalty expense.

(c) 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 dependent on those distributors to maintain and expand the volume of product sales to existing and new customers.

11. OTHER INCOME (LOSS)

	2008 **$**	2007 $
Foreign exchange gains (losses)	**85,747**	(121,582)
Interest and other income (loss)	**(12,362)**	33,040
	73,385	(88,542)

12. INCOME TAXES

(A) NON-CAPITAL LOSSES

The Company has accumulated non-capital losses carried forward for income tax purposes of approximately $10,029,800, 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:

	$
2015	293,400
2026	651,500
2027	3,701,200
2028	5,383,700
	10,029,800

(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 $21,000. These credits may be applied against future federal income taxes payable and expire as follows:

	$
2009	400
2012	20,600
	21,000

(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:	**2008** **$**	2007 $
Non-capital losses and SR & ED expenditures carried forward	**2,884,000**	1,983,000
Net capital losses carried forward	**851,000**	1,004,000
SR&ED investment tax credits	**21,000**	37,000
Undepreciated capital cost for tax purposes in excess of net book value	**1,423,000**	2,195,000
Deferred revenue recognized for tax purposes	**83,000**	129,000
Valuation allowance	**(5,262,000)**	(5,348,000)
	-	-

For consolidated financial statement purposes, no future income tax asset has been recorded at December 31, 2008 and 2007 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:

	2008 **$**	2007 $
Income taxes (recovery) based on federal and provincial statutory		
income tax rate of 29.50% (2007 - 32.12%)	**(1,061,843)**	(446,254)
Tax effect of expenses that are not deductible	**8,839**	8,140
Tax effect of current year non-capital losses not recognized	**1,588,180**	1,188,826
Tax effect relating to property and equipment	**(504,525)**	(738,063)
Tax effect of deferred revenue recognized	**(30,651)**	(12,649)
	-	-

13. RELATED PARTY TRANSACTIONS

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

	2008 **$**	2007 $
Royalties earned by employees and directors	**57,461**	59,233
Royalties earned by former employees	**11,271**	-
Sale of lawsuit interests to employees and directors	**-**	25,000
Amounts payable to employees and directors included in royalties payable	**45,882**	13,272
Amounts receivable from directors and employees included in accounts receivable	**-**	8,500
Consulting fees earned by a company controlled by a director	**75,000**	-

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:

	2008 **$**	2007 $
North America	**2,843,273**	2,364,387
Other	**1,384,800**	1,083,307
	4,228,073	3,447,694

15. FINANCIAL INSTRUMENTS

The Company has designated its financial instruments as follows: cash and cash equivalents are classified as held-for-trading, which is measured at fair value; accounts receivable are classified as loans and receivables which are measured at amortized cost; accounts payable and accrued liabilities, long-term debt, royalties payable, and the SGGF legal fees are classified as other liabilities and are also measured at amortized cost. The fair value of accounts payable, the current portion of long term debt, royalties payable, and the SGGF legal fees approximates their carrying amount due to their short-term nature. The fair value of long-term debt is estimated to approximate its carrying value because the interest rate does not differ significantly from current interest rates for similar types of borrowing arrangements.

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

A) CREDIT RISK:

The Company makes sales to customers that are well-established and well-financed within their respective industries. There is always a risk relating to the financial stability of customers and their ability to pay, but management views this risk as minimal. Approximately 94% of accounts receivable are due from two customers.

B) LIQUIDITY RISK:

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The long-term debt matures in January 2013. It is the intention of the Company that refinancing will be negotiated at that time should it be required. The Company is required to make payments totaling $705,000 in 2009 pursuant to a lawsuit settlement agreement. In the event it defaults on required payments, the Company faces the potential of a material adverse court cost award. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. In order to manage this liquidity risk, the Company regularly reviews its aged accounts receivable listing to ensure prompt collections. The Company regularly reviews its cash availability and whenever conditions permit, the excess cash is deposited in short-term interest bearing instruments to generate revenue while maintaining liquidity.

C) MARKET RISK

Market risk is comprised of interest rate risk and foreign currency risk. The Company's exposure to market risk is as follows:

i) Foreign currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The Company is exposed to foreign currency fluctuations because a substantial portion of sales are denominated in U.S. dollars. A one percent change in the Canadian/U.S. dollar exchange rate will impact revenues by approximately $39,700 annually based upon 2008 U.S. dollar sales of $3,974,000. The Company does purchase some materials and services in U.S. dollars and to a lesser extent in Euros. This amount will vary by product sold.

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company.

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (USD)	
		-1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial assets			
Accounts receivable	$426,500	$4,265	$(4,265)
Financial liabilities			
Accounts payable and accrued liabilities	$301,000	$(3,010)	$3,010
Total increase (decrease)		$1,255	$(1,255)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2008.

ii) Interest rate risk

The Company has minimal interest rate risk because its long-term debt is a fixed rate of 5.49%. However, in the event of a default, the rate would increase to 7.49% and result in an increase in the required monthly principal and interest payment by $1,541.

16. LEASE COMMITMENTS

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

	$
2009	203,562
2010	118,574
	322,136

17. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements, and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 2007.

18. SUBSEQUENT EVENTS

On March 16, 2009, the Company entered into a Settlement Agreement with all Co-Defendants in the Saskatchewan Government Growth Fund lawsuit (see note 9a). Pursuant to the Settlement Agreement, the Company consented to the dismissal of all appeal actions commenced by it. The Company will make aggregate payments to the Co-Defendants of $705,000 by way of four equal quarterly installments of $176,250 commencing on March 31, 2009. Payments will be secured by a general security agreement against all of the Company's present and after acquired property subordinated to the general security agreement already in place on the Company's long-term debt (see note 5).

In the event the Company should default on the provisions of the Settlement Agreement, the Co-Defendants would be entitled to enforce their security with respect to the balance of payments outstanding and would be entitled to open up all cost matters with respect to the litigation and make arguments to the Saskatchewan Court of Queen's Bench that additional costs should be awarded. The Company has accrued legal fees of $725,000 consisting of the $705,000 under the settlement agreement and additional legal fees of $20,000. The accrual is reflected in SGGF legal fees on the balance sheet.

INVESTOR INFORMATION APRIL 2009

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Gilles Gagnon, Acting CEO
Donald Oborowsky
Glenn Rourke
John Zupancic

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David Fielder, M. Sc.
Chief Scientific Officer

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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 MEETING OF SHAREHOLDERS
The annual general meeting of shareholders will be held on:
Wednesday, June 10, 2009 at 10:30 a.m. (EDT)
at the Hotel Omni Mont-Royal, Printemps Room,
1050 Sherbrooke Street West, Montreal, Quebec.

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.

Graphic Layout: Trente9 Groupe communications inc.

Printed in Canada

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