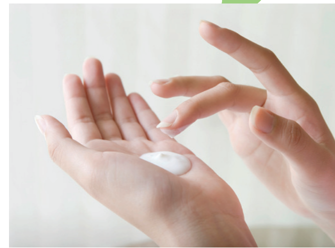

Annual Report 2009

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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 Fellow Shareholders,

For Ceapro, 2009 was a year of transition strategically and operationally. From a strategic perspective, we have focused on the Company's core expertise – *extracting and commercializing selected high value active ingredients from natural sources* – while operationally; we have achieved a high level of efficiency particularly at the manufacturing facility. Your company is now in a position where it could significantly increase volumes for existing products, while developing new ones.

From a financial perspective, we are proud with the results obtained during this difficult global economic period where we have succeeded in generating the highest revenues in the Company's history and have significantly improved our income from operations by $1.47 million compared to the previous year.

Some of our key accomplishments in 2009 included:

- Implementing a customized Good Manufacturing Program;
- Developing and commercializing Ceapro's newest products, hydrolyzed oat peptides and lupin peptides, for major personal hair care lines;
- Signing of an out-licensing agreement for CeaProve®;
- Signing of a non-exclusive distribution agreement with South Korean based East Hill Corporation for selected Asian territories;
- Obtaining key patents in Europe and Asia for our flagship product, Avenanthramides;
- Deploying major marketing and business development efforts resulting in advanced discussions with potential key research and commercial partners;
- Settling litigation and completing payments related to the Saskatchewan Government Growth Fund Ltd.

Over the last two years, your Company went through a challenging decline, turn around and stabilization cycle. Now, with all its ongoing and planned strategic activities, Members of the Board and Senior Management are very confident that Ceapro has the key ingredients for success, and that we have paved the way to experience strong growth required for value creation.

In order to reap the benefits from everyone's current and past efforts, near-term investments are required for the recapitalization of the balance sheet and the successful implementation of the business plan. While capital markets remain difficult for small companies like Ceapro, we will continue to pursue completing this milestone and remain confident we can accomplish this, given the greatly improved prospects for Ceapro to grow and the recovery of the world economy in 2010.

While we are working hard to capitalize on our strengths and new opportunities, we wish to address our most sincere thanks to our employees as well as to our valued customers and to you, our shareholders, for your ongoing support and confidence.

We look forward to making 2010 a very successful year!

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

ED TAYLOR, CGA
CHAIRMAN OF THE BOARD

May 17, 2010

III Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the years ended December 31, 2009 and 2008, the financial position as at December 31, 2009, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 14, 2010. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2009, 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, 2009 and 2008 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 14, 2010, 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.

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 t*o 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;
- Completing a clinical trial with IR2DX for *CeaProve®* to advance commercialization opportunities; and
- Advancing new partnerships and strategic alliances to develop new commercial active ingredients.

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 in addition to direct marketing efforts for internally developed customers. Our vision and business strategy are supported by our commitment to the following core values:

- Developing and expanding partnerships and strategic alliances to expand 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 strong intellectual and human capital resources and we are developing a strong base of partnerships and strategic alliances to exploit our technology. The current economic environment provides challenges in obtaining financial resources to fully exploit opportunities. To fund our operations, Ceapro relies upon revenues primarily generated from the sale of active ingredients, and the proceeds of public and private offerings of equity securities, debentures, grants, 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; the ability to secure strategic partners for late stage development, marketing, and distribution of our products; and the ability to secure new customers to generate product sales. To the extent possible, we pursue and implement strategies to reduce or mitigate the risks associated with our business and operate our business within the constraint of financial resources that are available.

The Company's consolidated financial statements for the year ended December 31, 2009 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, grants, and other income offerings to support the Company's operations. The Company's ability to continue as a going concern is dependent on obtaining additional financial capital, 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.

The consolidated financial statements for the year ended December 31, 2009 do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, 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 96% of accounts receivable are due from three customers and all accounts receivable are current. The Company mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with a Canadian Chartered Bank. The Company's maximum exposure to credit risk on its cash and accounts at December 31, 2009 is $266,646.

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 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. Royalties are in arrears as they have not been paid since the second quarter of 2008 due to the limited financial resources of the Company. In order to manage this liquidity risk, the Company regularly reviews its aged receivable listing to ensure prompt collections. The Company regularly reviews its cash availability, and whenever conditions permit, the excess cash is deposited in short-tem interest bearing instruments to generate revenue while maintaining liquidity. The Company relies on cash flow from operations, debt, and equity financings and government funding to fund its operations. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

Cash outflows related to financial liabilities are outlined in the table below.

	0 - 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	TOTAL
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 846,538	$ –	$ –	$ 846,538
LONG TERM DEBT, INCLUDING INTEREST	208,608	417,216	926,535	1,552,359
ROYALTIES PAYABLE	758,436	–	–	758,436
CONVERTIBLE DEBENTURES, INCLUDING INTEREST	40,000	540,000	–	580,000
TOTAL	$1,853,582	$957,216	$926,535	$3,737,333

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 $37,380 annually based upon 2009 U.S. dollar sales of $3,738,000. 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	$129,511	$1,295	$(1,295)
Financial liabilities			
Accounts payable and accrued liabilities	$219,134	$(2,191)	$2,191
Total increase (decrease)		$(896)	$896

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2009.

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 its 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, the discount rate used in determining the employee future benefits obligation, and the interest rate used to value convertible debentures. 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, 2009, the Company adopted the new Handbook Section 3064 "Goodwill and Intangible Assets", which replaced Handbook Section 3062 "Goodwill and Other Intangible Assets" and Handbook Section 3450 "Research and Development Costs". 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 did not have a material impact on these consolidated financial statements.

Effective January 1, 2009, the Company adopted CICA amendments to Section 3862 "Financial Instruments – Disclosures". These amendments require enhanced disclosures over fair value measurements of financial instruments and liquidity risks. The additional disclosures over fair value measurements include categorization of fair value measurements into one of three levels, ranging from those fair value measurements that are determined through quoted market prices in an active market (Level 1) to those fair value measurements that are based on inputs that are not based on observable market data (Level 3). The additional disclosures over liquidity risks require greater clarification over the application of liquidity risk as well as a maturity analysis for financial liabilities. The additional disclosures have been provided in note 16 to the Company's December 31, 2009 consolidated financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS

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 were 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 the year, the Company began preparing its IFRS conversion plan. This plan is aimed at identifying the differences between IFRS and the Company's current accounting policies, assessing the impact on the Company's financial reporting, and analyzing alternative policies that could be adopted.

During 2010, the Company will prepare its financial statements under Canadian GAAP and after completion and release of these financial statements, will produce financial statements for the same periods under IFRS. The financial statements produced under IFRS will be for internal use only in 2010, but in 2011 they will be released as comparative period financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CICA Handbook Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests* will replace the former Section 1600, *Consolidated Financial Statements*. These new Sections are effective for interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011, but with earlier adoption permitted, and provide the Canadian equivalent to International Financial Reporting Standard IAS 27, *Consolidated and Separate Financial Statements*. The new standards are not expected to have a material effort on the Company's financial statements.

BUSINESS COMBINATIONS

CICA Handbook Section 1582, *Business Combinations,* will replace the former Section 1581, *Business Combinations*. The new Section is effective for acquisitions in fiscal years beginning on or after January 1, 2011 but with earlier adoption permitted, and provides the Canadian equivalent to IFRS 3, *Business Combinations*. The new standard is not expected to have a material effect on the Company's financial statements.

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007

SELECTED ANNUAL INFORMATION

$000S EXCEPT PER SHARE DATA	**2009**	2008	2007
TOTAL REVENUES	**4,370**	4,228	3,448
NET LOSS AND COMPREHENSIVE LOSS	**(69)**	(3,599)	(1,389)
BASIC NET LOSS PER COMMON SHARE	**(0.00)**	(0.08)	(0.03)
DILUTED NET LOSS PER COMMON SHARE	**(0.00)**	(0.08)	(0.03)
TOTAL ASSETS	**2,771**	3,287	4,588
TOTAL LONG-TERM FINANCIAL LIABILITIES	**2,025**	1,770	2,182

During 2009, there was a 3.3% increase in total revenues.

In 2009, the net loss decreased by $3,530,000. Revenues increased $142,000 and the gross margin increased $833,000. There was a decrease in general and administration expenses of $265,000, lower sales and marketing costs in the amount of $201,000, and decreased research and development costs of $314,000.

Total revenues in the fourth quarter were $395,000, a decrease of 62% from 2008 fourth quarter revenues of $1,047,000. The net loss for the fourth quarter was $634,000. There was a decrease in general and administration expenses of $94,000, an increase of sales and marketing costs of $17,000, and a decrease in research and development costs of $263,000 during the fourth quarter.

REVENUE

$000S	**2009**	2008	CHANGE
TOTAL REVENUES	**4,370**	4,228	3%

PRODUCT SALES

In 2009, active ingredient sales rose $142,000 or 3% as a result of decreased sales of active ingredients, offset by higher realized US dollar exchange rates. The decrease in sales volume of active ingredients is largely due to economic conditions and inventory destocking that had a great effect on the personal care industry in 2009.

Sales of veterinary therapeutic products in 2009 were represented by the sale of pre-mixes containing Ceapro active ingredients. Ceapro did not manufacture any bottled finished veterinary products in 2009.

The fourth quarter revenues of $395,000 represent a sharp decrease in historical fourth quarter revenues for the Company. The effects of inventory destocking was most evident in the fourth quarter as customers reduced or postponed orders to reduce their inventories as a result of difficult market conditions in the personal care market.

EXPENSES

COST OF GOODS SOLD AND GROSS MARGINS

$000S	**2009**	2008	CHANGE
SALES	**4,370**	4,228	
COST OF GOODS SOLD	**2,252**	2,943	
GROSS MARGIN	**2,118**	1,285	65%
GROSS MARGIN %	**48%**	30%	

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, transportation costs, and amortization of manufacturing equipment. Aside from plant rent, amortization, labour, and quality control related expenses, the majority of costs are variable in relation to the volume of product produced or shipped.

For 2009, the gross margin percentage increased to 48% from 30%, primarily due to the successful implementation of improved operating procedures and better management of resources.

The gross margin percentage in the fourth quarter was −3%, down significantly from 30% in 2008 due to unusually low sales volumes and resulting lower economies of scale of manufacturing fixed costs.

GENERAL AND ADMINISTRATION

$000S	**2009**	2008	CHANGE
SALARIES AND BENEFITS	**386**	490	
BOARD OF DIRECTORS COMPENSATION	**190**	153	
INVESTOR RELATIONS	**113**	189	
INSURANCE	**114**	114	
LEGAL	**80**	145	
OTHER	**541**	598	
TOTAL GENERAL AND ADMINISTRATION EXPENSES	**1,424**	1,689	−16%

General and administration expense for 2009 decreased $265,000 or 16%. Salaries decreased as a result of staff reductions during the year. Directors' compensation increased due to stock based compensation incurred as a result of stock options issued in the second quarter. Consulting fees of $15,000 were incurred during the year for the IFRS conversion project. Most other costs decreased, which reflects efforts by the Company to reduce expenditures and focus on core areas of business.

General and administration costs for the fourth quarter decreased $94,000 or 23% from 2008 for the same reasons that full year expenses decreased.

SALES AND MARKETING

$000S	**2009**	2008	CHANGE
SALARIES AND BENEFITS	**83**	285	
OTHER	**101**	100	
TOTAL SALES AND MARKETING	**184**	385	52%

Sales and marketing expenses declined by 52% due to a reduction of salaries and benefits as a result of the elimination of positions during 2008 and the first quarter of 2009. Other expenses were unchanged from 2008.

Sales and marketing expenses did increase in the fourth quarter of 2009 versus 2008 as the Company made a decision to evaluate different marketing strategies. Most of these efforts involved attending tradeshows focused on opportunities to target personal care companies with specific needs and subsequent follow-up visits with these companies.

ROYALTIES

$000S	**2009**	2008	CHANGE
ROYALTY INTEREST UNITS	**301**	448	
ROYALTY LICENSE AGREEMENTS		2	
LESS: RECOGNITION OF DEFERRED ROYALTY REVENUE	**(50)**	(48)	
TOTAL ROYALTIES EXPENSES	**251**	402	– 38%

As at December 31, 2009, royalty investors receive royalties equal to 2.29% (2008 – 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. Royalty expense in 2009 decreased as two royalties totaling 8.31% were fully accrued in the first nine months of 2009. The Company recognizes deferred royalty revenue for royalty interest units issued in 2005 at a rate of one half times the amount of the royalty interest expense. As at December 31, 2009, royalties payable to royalty investors and AVAC Ltd. were $758,436. Detailed royalty disclosure is provided in note 7 of the consolidated financial statements.

Royalty expense in the fourth quarter was $16,000, a sharp decrease from $102,000 in the fourth quarter of 2008 as a result of lower product sales and a lower royalty rate as a result of the full amortization of two royalties totaling 8.31% in the first three quarters of 2009. The Company has not paid royalties accrued and due since the second quarter of 2008 due to limited financial resources.

BIOENERGY FEASIBILITY STUDY

There were no expenditures on the bio-energy feasibility study in 2009 as the project was completed in the second quarter of 2008. During the first six months of 2008, costs net of government funding in the amount of $6,000 were recognized by the Company. The Company has decided to not pursue this project any further.

INTEREST & AMORTIZATION

$000S	**2009**	2008	CHANGE
INTEREST ON LONG-TERM DEBT	**77**	84	
TOTAL INTEREST EXPENSE	**77**	84	– 8%
AMORTIZATION	**45**	35	29%

Interest expense decreased $7,000 due to lower levels of long term debt outstanding for the full year.

Interest expense decreased $2,000 in the fourth quarter of 2009 from 2008.

For the year ended December 31, 2009, the total amortization of $357,000 (2008 – $337,000) was allocated as follows: $45,000 (2008 – $35,000) to amortization expense, $23,000 to inventory (2008 – nil), and $289,000 (2008 – $302,000) to cost of goods sold.

RESEARCH AND PRODUCT DEVELOPMENT

$000S	**2009**	2008	CHANGE
SALARIES AND BENEFITS	**400**	341	
PRODUCT DEVELOPMENT – CEAPROVE®	**75**	143	
OTHER	**102**	407	
RESEARCH AND PRODUCT DEVELOPMENT EXPENDITURES	**577**	891	– 35%

Net research and product development expenses decreased $314,000 or 35%. Salaries and wages increased due to the hiring of additional personnel and salary increases. These higher costs were offset by a one time recovery of certain research and development costs previously expensed. There was a decrease in CeaProve® expenditures due to a strategic decision made to out-license this technology, but associated with this out-licensing was increased costs to scale up manufacturing capabilities required for clinical trial activities.

Research and development expenses in the fourth quarter decreased $263,000 or 59% in 2009 from 2008. In 2008, there was increased expense due to the technology transfer costs related to the evaluation of a proposed contract manufacturer. These costs did not exist in 2009.

OTHER INCOME (EXPENSES)

$000S	**2009**	2008	CHANGE
INTEREST AND OTHER INCOME (LOSS)	**13**	(13)	
FOREIGN EXCHANGE GAINS (LOSS)	**(68)**	86	
TOTAL OTHER INCOME (EXPENSES)	**(55)**	73	– 175%

Other income was lower in 2009 due to foreign exchange losses of $68,000 offset by other income of $13,000. The United States dollar weakened steadily against the Canadian dollar after the first quarter of 2009 resulting in foreign currency losses. Stronger United States dollar exchange rates versus Canadian dollars in 2008 resulted in foreign currency gains in the amount of $86,000 in 2008.

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.

	2009				2008			
$000S EXCEPT PER SHARE DATA	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
TOTAL REVENUES	**395**	**1,261**	**1,212**	**1,502**	1,049	871	1,456	852
NET (LOSS) INCOME	**(634)**	**(4)**	**466**	**103**	(1,415)	(488)	1,087	(609)
BASIC (LOSS) INCOME PER SHARE	**(0.01)**	**(0.00)**	**0.01**	**0.00**	(0.04)	(0.01)	(0.02)	(0.01)
DILUTED (LOSS) INCOME PER SHARE	**(0.01)**	**(0.00)**	**0.01**	**0.00**	(0.04)	(0.01)	(0.02)	(0.01)

Ceapro's quarterly sales and results fluctuate due to variations in the timing of product sales and are largely impacted by general economic conditions.

SOURCES AND USES OF CASH

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

($000S)	**2009**	2008
SOURCES OF FUNDS:		
FUNDS GENERATED FROM OPERATIONS (CASH FLOW)	**175**	(3,176)
CHANGE IN NON-CASH WORKING CAPITAL ITEMS	**(1,144)**	2,069
SHARE CAPITAL ISSUED, NET OF COSTS	**463**	–
CONVERTIBLE DEBENTURE PROCEEDS	**500**	–
	(6)	(1,107)
USES OF FUNDS:		
PURCHASE OF PROPERTY AND EQUIPMENT AND DEPOSITS	**(52)**	(276)
CHANGE IN LONG-TERM DEBT	**(132)**	(114)
PURCHASE OF LICENSE	**–**	(30)
ROYALTIES PAYABLE	**289**	261
	105	(159)
NET CHANGE IN CASH	**99**	(1,266)

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.

Total common shares issued and outstanding at April 14, 2010 were 51,710,063 (April 21, 2009 – 47,050,063). In addition, 2,485,000 stock options (April 21, 2009 – 1,810,000) were outstanding. Shareholders' deficiency of ($1,373,000) at December 31, 2009 improved from a shareholders' deficiency of ($1,931,000) at December 31, 2008.

Ceapro's working capital position was ($1,273,000) at December 31, 2009, an improvement of $1,118,000 from ($2,391,000) at December 31, 2008.

To meet future requirements, Ceapro intends to 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, government funding, 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.

RELATED PARTY TRANSACTIONS

During 2009, $38,699 of royalties were earned by employees and Directors from their investment in previous Ceapro royalty offerings. At December 31, 2009, $84,581 of royalties were payable to employees and directors. Consulting fees of $150,000 were earned by a company controlled by a director. Employees and directors purchased $45,000 of convertible debentures during the year. At December 31, 2009, consulting fees of $37,500 were payable 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 certain 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.

During the year ended December 31, 2008, all claims related to the Saskatchewan Claim were dismissed. During the year ended December 31, 2009, 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, which were payable in four equal quarterly installments of $176,250 commencing March 31, 2009. The settlement agreement was fully satisfied by the Company in 2009; there is no further financial exposure to the Company.

During the year ended December 31, 2008, the Company recorded a provision for disputed legal fees in the amount of $741,283. In 2009, the Company recorded a recovery of $426,300 of the previously disputed legal fees as one legal firm advised the Company that it would not be pursuing their claim. The remaining disputed balance of $314,983 is recorded as a liability on the balance sheet as SGGF legal fees.

The Company was required to post a bond with the court in the amount of $305,000 in connection with the litigation. The bond was released upon satisfaction of the judgment by the Company.

(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 plant. 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:

2010	**$ 5,760**
2011	**12,960**
2012	**20,160**
2013	**27,360**
2014 to 2017	**181,440**
	$247,680

For 2009, the Company recognized a minimum payment of $5,760 (2008 – $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

The harsh economic realities of 2009 impacted Ceapro in the fourth quarter as the personal care industry reduced inventory levels as a result of lower demand for their products. Despite this reality, 2010 appears to be a promising year as the economy begins to rebound and as new marketing and development efforts begin to take hold. Litigation issues that have impeded Ceapro's growth are now behind the Company, providing a smoother path forward.

The production facility and technology improvements are now working efficiently; and Ceapro is confident it is now poised to realize the benefits of more efficient production, greater capacity, and flexibility. Ceapro continues to develop its solid core of manufacturing technology and expects to further improve their efficiency by adopting additional technologies in 2010. Ceapro intends to work with new technology partners identified to expedite these improvements.

During the year, Ceapro commenced sales of its new peptides for a major brand in the hair care market. This is a key milestone for Ceapro as the hair care market is expected to be as large as the skin and dermatology markets that Ceapro has traditionally serviced. This provides a new market opportunity for Ceapro to grow significantly.

Increased marketing efforts initiated in the fourth quarter this year introduced Ceapro to several new prospective customers. Ceapro products are now currently being evaluated by some of these customers and other business development activities are ongoing. These efforts are expected to translate into new sales for the Ceapro product line.

Going forward, Ceapro will look to continue to further develop new products for its Active Ingredient business and expects to review 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.

To fully exploit its potential, Ceapro expects to enter into research collaboration agreements to expedite getting new products to market and expanding the capability of Ceapro beyond its traditional resource levels.

Ceapro resumed the manufacturing scale up of *CeaProve®*, its pre-diabetes screening product. Pursuant to the strategic review, the Company has out-licensed the technology for the medical market, and clinical trial activities have commenced but are expected to proceed slower than anticipated, as funding that was previously anticipated for a clinical trial has not materialized. The timing of the completion of clinical trials will be dependent upon the financial resources of our partner and the successful scale up of a new contract manufacturer for the product.

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.

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 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 consolidated financial statements include some amounts that are based on the best estimates and judgments of Management. Financial information used elsewhere in the report is consistent with that in the consolidated financial statements.

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

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

The consolidated financial statements have been audited by the Company's auditors, 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 Acting 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, 2009 and 2008, 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, 2009 and 2008, 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
April 13, 2010

SIGNED: "Stout & Company LLP"
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

	December 31 2009 $	December 31 2008 $
ASSETS		
Current Assets		
Cash	**115,502**	16,525
Accounts receivable	**151,144**	551,594
Inventories (note 3)	**516,821**	406,967
Prepaid expenses and deposits	**62,309**	82,568
	845,776	1,057,654
License (note 10b)	**27,000**	30,000
Property and equipment (note 4)	**1,897,878**	2,199,740
	2,770,654	3,287,394
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**846,538**	1,150,814
Current portion of deferred royalty revenue	**60,000**	57,125
Current portion of long-term debt (note 5)	**138,806**	131,582
Currrent portion of royalties payable (note 7)	**758,436**	455,549
Current portion of employee future benefits obligation (note 8)	**–**	187,000
SGGF legal fees (note 10a)	**314,983**	1,466,283
	2,118,763	3,448,353
Deferred Royalty Revenue	**220,422**	272,944
Employee Future Benefits Obligation (note 8)	**136,786**	117,012
Long-Term Debt (note 5)	**1,227,426**	1,366,232
Convertible Debentures (note 6)	**440,000**	–
Royalties Payable (note 7)	**–**	13,981
	4,143,397	5,218,522
SHAREHOLDERS' DEFICIENCY		
Share Capital (note 9b)	**5,479,202**	5,016,395
Equity Component of Convertible Debentures (note 6)	**60,000**	–
Contributed Surplus (note 9c)	**478,945**	374,018
Deficit	**(7,390,890)**	(7,321,541)
	(1,372,743)	(1,931,128)
	2,770,654	3,287,394

CONTINGENCIES (note 10a and 10c)

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"
Director

SIGNED: "Glenn Rourke"
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS AND DEFICIT

Years ended December 31	2009 $	2008 $
REVENUE		
Sales (note 11)	**4,370,070**	4,228,073
Cost of goods sold	**2,252,024**	2,942,802
Gross margin	**2,118,046**	1,285,271
EXPENSES		
General and administration	**1,424,344**	1,688,978
Royalties	**250,663**	401,876
Sales and marketing	**183,693**	385,132
Amortization	**44,842**	34,955
Interest on long-term debt	**77,031**	83,651
	1,980,573	2,594,592
Income (loss) from operations	**137,473**	(1,309,321)
OTHER INCOME (EXPENSES)		
Research and product development	**(577,629)**	(891,382)
Bioenergy Feasibility Study	**–**	(5,868)
Other income (loss) (note 12)	**(55,493)**	73,385
Loss before SGGF legal fees	**(495,649)**	(2,133,186)
SGGF legal fees (note 10a)	**426,300**	(1,466,283)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	**(69,349)**	(3,599,469)
Deficit, beginning of year	**(7,321,541)**	(3,722,072)
DEFICIT, END OF YEAR	**(7,390,890)**	(7,321,541)
Net loss per common share:		
Basic	**(0.00)**	(0.08)
Diluted	**(0.00)**	(0.08)
Weighted average number of common shares outstanding	**49,577,953**	47,050,063

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31	2009 $	2008 $
OPERATING ACTIVITIES		
Net loss for the year	**(69,349)**	(3,599,469)
Adjustments to reconcile net loss to cash provided by operating activities		
Amortization	**356,958**	336,569
Recognition of deferred royalty revenue	**(49,647)**	(48,306)
Employee future benefits obligation	**(167,226)**	20,364
Stock based compensation	**104,927**	114,689
	175,663	(3,176,153)
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Restricted cash	**–**	50,000
Accounts receivable	**400,450**	156,571
Inventories	**(109,854)**	(250,383)
Prepaid expenses and deposits	**20,259**	47,532
Accounts payable and accrued liabilities	**(304,276)**	656,401
Deferred revenue	**–**	(57,009)
SGGF legal fees	**(1,151,300)**	1,466,283
	(1,144,721)	2,069,395
	(969,058)	(1,106,758)
INVESTING ACTIVITIES		
Purchase of license	**–**	(30,000)
Purchase of property and equipment	**(52,096)**	(275,891)
	(52,096)	(305,891)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(131,582)**	(114,592)
Proceeds from convertible debenture issue	**500,000**	–
Proceeds from issuance of share capital	**466,000**	–
Share capital issue costs	**(3,193)**	–
Increase in royalties payable	**288,906**	261,440
	1,120,131	146,848
Increase (decrease) in cash	**98,977**	(1,265,801)
Cash at beginning of year	**16,525**	1,282,326
Cash at end of year	**115,502**	16,525
SUPPLEMENTARY INFORMATION		
Interest paid	**77,031**	83,651
Royalties paid	**–**	172,356

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 will be able to realize its assets and discharge liabilities in the normal course of operations. However, certain adverse conditions and events cast significant doubt upon the validity of this assumption. 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's ability to continue as a going concern is dependent 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. Such adjustments could be material.

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 relate to provisions made for inventory valuation, amortization of property and equipment, the assumptions used in determining stock based compensation, and the interest rates used in determining the value of employee future benefits obligation and the liability portion of convertible debentures. 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 with a maturity of 3 months or less on inception.

(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 recorded against royalty expense on the basis of $1 of deferred revenue recognized for every $2 of royalty expense incurred.

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

(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.

(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	30% declining balance
Leasehold Improvements	Over the term of the lease

(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.

2. ACCOUNTING POLICIES (CONTINUED)

(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 agent 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, 2009, the Company adopted the new Handbook Section 3064 "Goodwill and Intangible Assets", which replaced Handbook Section 3062 "Goodwill and Other Intangible Assets" and Handbook Section 3450 "Research and Development Costs". 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 did not have a material impact on these consolidated financial statements.

Effective January 1, 2009, the Company adopted CICA amendments to Section 3862 "Financial Instruments – Disclosures". These amendments require enhanced disclosures over fair value measurements of financial instruments and liquidity risks. The additional disclosures over fair value measurements include categorization of fair value measurements into one of three levels, ranging from those fair value measurements that are determined through quoted market prices in an active market (Level 1) to those fair value measurements that are based on inputs that are not based on observable market data (Level 3). The additional disclosures over liquidity risks require greater clarification over the application of liquidity risk as well as a maturity analysis for financial liabilities. The additional disclosures have been provided in note 16.

(S) FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in Canadian 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 were 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 the year, the Company began preparing its IFRS conversion plan. This plan is 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.

During 2010, the Company will prepare its financial statements under Canadian GAAP, and after completion and release of these financial statements, will produce financial statements for the same periods under IFRS. The financial statements produced under IFRS will be for internal use only in 2010, but in 2011 they will be released as comparative period financial statements.

Consolidated financial statements

CICA Handbook Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests* will replace the former Section 1600, *Consolidated Financial Statements*. These new Sections are effective for interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011, but with earlier adoption permitted and provide the Canadian equivalent to International Financial Reporting Standard IAS 27, *Consolidated and Separate Financial Statements*. The new standards are not expected to have a material effect on the Company's financial statements.

Business Combinations

CICA Handbook Section 1582, *Business Combinations* will replace the former Section 1581, *Business Combinations.* The new Section is effective for acquisitions in fiscal years beginning on or after January 1, 2011, but with earlier adoption permitted and provides the Canadian equivalent to IFRS 3, *Business Combinations*. The new standard is not expected to have a material effect on the Company's financial statements.

3. INVENTORIES

	2009 $	2008 $
Raw materials	**218,604**	200,548
Work in progress	**135,026**	98,752
Finished goods	**163,191**	107,667
	516,821	406,967

Inventories expensed in cost of goods sold during the year ended December 31, 2009 is $2,171,570 (2008 – $2,777,886). During the year ended December 31, 2009, the Company decreased the carrying value of inventory by $10,717 (2008 – $28,663) due to lower estimated realizable values from certain raw materials and certain finished products reaching their expiry date.

4. PROPERTY AND EQUIPMENT

	2009		
	Cost $	**Accumulated Amortization $**	**Net Book Value $**
Manufacturing equipment	**2,811,773**	**1,063,270**	**1,748,503**
Office equipment	**75,861**	**54,135**	**21,726**
Computer equipment	**240,070**	**152,878**	**87,192**
Leasehold improvements	**120,014**	**79,557**	**40,457**
	3,247,718	**1,349,840**	**1,897,878**

	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	231,436	117,558	113,878
Leasehold improvements	103,435	42,121	61,314
	3,196,741	997,001	2,199,740

For the year ended December 31, 2009, the total amortization of $356,956 (2008 – $336,569) was allocated as follows: $44,842 (2008 – $34,955) to amortization expense, $22,873 (2008 – nil) to inventory, and $289,243 (2008 – $301,614) to cost of goods sold.

5. LONG-TERM DEBT

	2009 **$**	2008 $
Loan, payable at $17,384 per month, principal and interest at 5.49%, secured by a general security agreement, due January, 2013.	**1,366,232**	1,497,814
Less current portion	**138,806**	131,582
	1,227,426	1,366,232

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

	$
2010	138,806
2011	146,426
2012	154,465
2013	926,535
	1,366,232

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. CONVERTIBLE DEBENTURES

On December 31, 2009, the Company issued secured convertible debentures for cash of $500,000. The debentures bear interest at 8% per annum, mature on December 31, 2011, and are convertible at any time at a price of $0.10 per common share at the option of the holder. The debentures may be redeemed at the option of the Company upon giving notice of 60 days. The Company may satisfy interest payments through the delivery of common shares at the weighted average market price of the Common Shares for the 20 trading days the Common Shares traded on the TSX-V immediately prior to the date on which the interest obligation is due. The debenture security ranks subordinate to the Company's existing long term debt as well as $500,000 for a potential working capital facility. Currently there is no working capital facility.

The convertible debentures contain both liability and equity components. The Company has allocated the total proceeds received between the liability and equity components of the convertible debentures using the residual method, based on an interest rate of 15%, which is the estimated cost of borrowing at which the Company could borrow similar debt without a conversion feature. The value of the liability of $440,000 was credited to liabilities with the remaining amount of $60,000 recorded as shareholders' equity. Interest and accretion on the liability component will be amortized using the effective interest method until the debentures are converted or reach maturity. No interest or accretion has been recorded in 2009 as the debentures were issued on December 31, 2009.

	$
Total value of the convertible debenture	500,000
Equity element	(60,000)
Liability element	440,000

7. ROYALTIES PAYABLE

	2009 $	2008 $
Royalties payable pursuant to financial assistance received (note 7 (a))	**111,844**	111,844
Royalties payable pursuant to royalty interest offering (note 7 (c), (d), and (e))	**646,592**	357,686
	758,436	469,530
Less current portion	**758,436**	455,549
	–	13,981

(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, 2009 was $329,764 (2008 – $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 balance of royalties payable under this agreement as at December 31, 2009 was in arrears and totaled $111,844 (2008 – $111,844).

(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, 2009, $225,000 (2008 – $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, 2009 $nil (2008 – $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, 2009 was $nil (2008 – $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, 2009 was $1,032,695 (2008 – $886,403). The balance of royalties payable under this offering as at December 31, 2009 was in arrears and totaled $320,692 (2008 – $174,397).

(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, 2009 was $628,394 (2008 – $585,098). The balance of royalties payable under this offering as at December 31, 2009 was in arrears and totaled $149,445 (2008 – $106,120).

(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, 2009 was $350,326 (2008 – $251,032). The balance of royalties payable under this offering as at December 31, 2009 was in arrears and totaled $176,455 (2008 – $77,166).

(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, 2009, $362,250 (2008 – $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 royalties will commence when the royalty payments on investment agreements in note 7(a) are fully satisfied. The portion of the obligation paid or accrued at December 31, 2009 was $nil (2008 – $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, 2009, $510,000 of this commitment has been received (2008 – $510,000). The Company is obligated to pay a royalty (to a maximum of one and a half times the financial assistance received or $765,000) on sales of CeaProve® on the following basis: 0% of net sales and net sub-licensing revenues earned until royalty payments have been fully satisfied under the investment agreement in note 7(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 31,2009 was $nil (2008 – $nil).

8. 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 completed all required payments under the termination agreement on December 31, 2009.

Accrued benefit obligation	**2009 $**	2008 $
Unfunded balance, beginning of year	**304,012**	283,648
Curtailment loss	**–**	68,751
Benefits paid	**(187,000)**	(67,361)
Current service cost	**14,871**	14,496
Interest costs on accrued benefit obligation	**4,903**	4,478
	136,786	304,012
Less current portion	**–**	(187,000)
	136,786	117,012

Elements of defined benefit costs recognized in the year	**2009 $**	2008 $
Current service cost	**14,871**	14,496
Interest cost on accrued benefit obligation	**4,903**	4,478
Curtailment loss	**–**	68,751
	19,774	87,725

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, 2009 was 4.19% (2008 – 4.19%).

9. 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

	2009		2008	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of year	**47,050,063**	**5,016,395**	47,050,063	5,016,395
Changes during the year:				
Equity placements	**4,660,000**	**466,000**	–	–
Share capital issue costs	**–**	**(3,193)**	–	–
	51,710,063	**5,479,202**	47,050,063	5,016,395

On June 17, 2009, the Company completed a private placement share offering of 4,660,000 common shares at $0.10 per share for aggregate gross proceeds of $466,000.

(C) CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	2009 $	2008 $
Balance at beginning of year	**374,018**	259,329
Stock based compensation expense (note 9 (d))	**104,927**	114,689
	478,945	374,018

(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 2 years 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 900,000 (2008 – 1,225,000) 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 2009 was 2.11% (2008 – 3.22%), the weighted average expected volatility was 112% (2008 – 86%), which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years, and the expected dividends were nil (2008 – nil). The weighted average grant date fair value of options granted during the year were $0.10 (2008 – $0.10) per option. The stock based compensation expense recorded during the current year relating to options granted in 2009, 2008, 2007 and 2006 was $104,927 (2008 – $114,689).

A summary of the status of the Company's stock options at December 31, 2009 and 2008 and changes during the years ended on those dates is as follows:

	2009		2008	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise price $
Outstanding at beginning of year	**1,810,000**	**0.21**	2,308,092	0.26
Granted	**900,000**	**0.13**	1,225,000	0.16
Expired	**(225,000)**	**0.20**	(1,723,092)	0.24
Outstanding at end of year	**2,485,000**	**0.18**	1,810,000	0.21
Exercisable at end of year	**1,314,000**	**0.20**	786,000	0.22

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

		2009	2008
Exercise Price $	Year of Expiration	**Number of Options**	Number of Options
0.13	2014	**900,000**	–
0.12	2013	**660,000**	780,000
0.25	2013	**210,000**	240,000
0.28	2012	**390,000**	390,000
0.30	2012	**100,000**	100,000
0.30	2011	**75,000**	150,000
0.27	2011	**150,000**	150,000
		2,485,000	1,810,000

(E) WARRANTS

A summary of the status of the Company's warrants at December 31, 2009 and 2008 and changes during the years ended on those dates is as follows:

	2009		2008	
	Number of Warrants	**Average Exercise Price $**	Number of Warrants	Average Exercise Price $
Outstanding at beginning of year	**4,806,608**	**0.44**	4,806,608	0.44
Expired	**(4,806,608)**	**0.44**	–	–
Outstanding at end of year	**–**	**–**	4,806,608	0.44

All outstanding warrants expired on February 27, 2009.

10. 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 raised numerous causes of action against certain 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.

During the year ended December 31, 2008, all claims related to the Saskatchewan Claim were dismissed. During the year ended December 31, 2009, 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 which were payable in four equal quarterly installments of $176,250 commencing March 31, 2009. The settlement agreement was fully satisfied by the Company in 2009 and there is no further financial exposure to the Company.

During the year ended December 31, 2008, the Company recorded a provision for disputed legal fees in the amount of $741,283. In 2009, the Company recorded a recovery of $426,300 of the previously disputed legal fees as one legal firm advised the Company that it would not be pursuing their claim. The remaining disputed balance of $314,983 is recorded as a liability on the balance sheet as SGGF legal fees.

The Company was required to post a bond with the court in the amount of $305,000 in connection with the litigation. The bond was released upon satisfaction of the judgement by the Company.

(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 plant. 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:

	$
2010	5,760
2011	12,960
2012	20,160
2013	27,360
2014 to 2017	181,440
	247,680

For 2009, the Company recognized a minimum payment of $5,760 (2008 – $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.

11. 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.

12. OTHER INCOME (LOSS)

	2009 **$**	2008 $
Foreign exchange gains (losses)	**(68,047)**	85,747
Interest and other income (loss)	**12,554**	(12,362)
	(55,493)	73,385

13. INCOME TAXES

(A) NON-CAPITAL LOSSES

The Company has accumulated non-capital losses carried forward for federal income tax purposes of approximately $11,727,100, and for provincial income tax purposes of approximately $11,530,800, 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:

	Federal $	Alberta $
2015	293,400	293,400
2026	651,500	651,500
2027	3,701,200	3,504,900
2028	5,383,700	5,383,700
2029	1,697,300	1,697,300
	11,727,100	11,530,800

(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.

13. INCOME TAXES (CONTINUED)

(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:	**2009** **$**	2008 $
Non-capital losses and SR & ED expenditures carried forward	**3,289,000**	2,884,000
Net capital losses carried forward	**851,000**	851,000
SR & ED investment tax credits	**–**	21,000
Undepreciated capital cost for tax purposes in excess of net book value	**1,073,000**	1,423,000
Deferred revenue recognized for tax purposes	**70,000**	83,000
Valuation allowance	**(5,283,000)**	(5,262,000)
	–	–

For consolidated financial statement purposes, no future income tax asset has been recorded at December 31, 2009 and 2008 as it is not likely 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:

	2009 **$**	2008 $
Income taxes (recovery) based on federal and provincial statutory income tax rate of 29% (2008 – 29.50%)	**(20,111)**	(1,061,843)
Tax effect of expenses that are not deductible	**13,942**	8,839
Tax effect of current year non-capital losses not recognized	**492,219**	1,588,180
Tax effect of prior years non capital losses and investment tax credits applied against current taxable income	**(56,946)**	–
Tax effect relating to property and equipment	**(360,439)**	(504,525)
Tax effect of deferred revenue recognized	**(14,397)**	(30,651)
Tax effect of deductible employee future benefit obligation payments	**(54,268)**	–
	–	–

14. RELATED PARTY TRANSACTIONS

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

	2009 **$**	2008 $
Royalties earned by employees and directors	**38,699**	**57,461**
Royalties earned by former employees	**–**	**11,271**
Amounts payable to employees and directors included in royalties payable	**84,581**	**45,882**
Convertible debentures purchased by employees and directors	**45,000**	**–**
Consulting fees earned by a company controlled by a director	**150,000**	**75,000**
Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities	**37,500**	**–**

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.

15. SEGMENTED INFORMATION

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

	2009 **$**	2008 $
United States	**2,679,371**	2,759,023
Other	**1,652,042**	1,462,141
Canada	**38,657**	6,909
	4,370,070	4,228,073

16. FINANCIAL INSTRUMENTS

The Company has designated its financial instruments as follows: cash is 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, the SGGF legal fees, and convertible debentures are classified as other liabilities and are also measured at amortized cost. The fair value of accounts receivable, accounts payable, the current portion of long term debt, royalties payable, and the SGGF legal fees approximate their carrying amount due to their short-term nature. The fair values of long-term debt and convertible debentures are estimated to approximate their carrying value because the interest rates do not differ significantly from current interest rates for similar types of borrowing arrangements. The Company accounts for regular-way purchases and sales of financial assets using trade date accounting, and transaction costs on financial instruments are recognized in income in the period.

16. FINANCIAL INSTRUMENTS (CONTINUED)

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 96% of accounts receivable are due from three customers and all accounts receivable are current. The Company mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with a Canadian Chartered Bank. The Company's maximum exposure to credit risk on its cash and accounts receivable at December 31, 2009 is $266,646.

(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 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. Royalties are in arrears as they have not been paid since the second quarter of 2008 due to the limited financial resources of the Company. 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. The Company relies on cash flow from operations, debt and equity financings, and government funding to fund its operations. There is no assurance that the Company will obtain sufficient funding to execute its business plan.

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

	0 - 1 year	1 - 3 years	4 - 5 years	Total
Accounts payable and accrued liabilities	$ 846,538	$ –	$ –	$ 846,538
Long term debt, including interest	208,608	417,216	926,535	1,552,359
Royalties payable	758,436	–	–	758,436
Convertible debentures including interest	40,000	540,000	–	580,000
Total	$1,853,582	$957,216	$926,535	$3,737,333

(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 $37,380 annually based upon 2009 U.S. dollar sales of $3,738,000. 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	$129,511	$1,295	$(1,295)
Financial liabilities			
Accounts payable and accrued liabilities	$219,134	$(2,191)	$2,191
Total increase (decrease)		$(896)	$896

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2009.

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.

17. LEASE COMMITMENTS

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

	$
2010	203,619
2011	121,563

18. CAPITAL DISCLOSURES

The Company considers its capital to be working capital and its shareholder deficiency. The Company's objectives in managing capital are 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 2008.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Investor Information May 2010

DIRECTORS

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Gilles Gagnon, Acting CEO
Donald Oborowsky
Glenn Rourke
John Zupancic

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Branko Jankovic, CA
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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:

June 23, 2010 at 11am MDT

Location:
4th floor Enterprise Square
10230 Jasper Avenue
Edmonton, Alberta T5J 4P6

EQUAL OPPORTUNITY EMPLOYER

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

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