



# Annual Report 2012

## :: Table of contents

Letter to Shareholders	2
New Manufacturing Facility	4
Avenanthramides – Our Flagship Ingredient	5
Oat Beta Glucan	6
Management’s Discussion and Analysis	7
Consolidated Financial Statements	24
Notes to Consolidated Financial Statements	31
Investor Information	56



Ceapro Inc. is a Canadian biotechnology company involved in the development of proprietary extraction technology and the application of this technology to the production of extracts and “active ingredients” from oats and other renewable plant resources. Ceapro adds further value to its extracts by supporting their use in cosmeceutical, nutraceutical, and therapeutics products for humans and animals.

## :: LETTER TO SHAREHOLDERS

### Dear Fellow Shareholders

Year 2012 posed a tremendous challenge. On one hand, it was marked by the necessity for Ceapro to plan for the graduation from the Leduc-based incubator facility to a new facility. On the other hand, this special project needed to be conducted while keeping the business “up and running”.

We are very pleased with the outcome from this project. Our team worked hard in conducting thorough feasibility studies to recommend the most suitable solution and place to manufacture our innovative products.

Nine locations were considered within and outside Canada. While contract manufacturing scenarios were envisioned during this process, it became very clear that Ceapro needs its own facility given the nature of its specialized and unique proprietary technologies. We were very excited to find the best place right on “our door step” in Edmonton.

This new site will house head office, laboratories, and manufacturing areas. It will be customized to our needs and will allow the implementation of improved processes and technologies that our research engineers have been working on for the last two years. Better product margins are expected from improved efficiencies.

From a product portfolio investment perspective, and as a continuum to the product stories featured in our 2011 annual report, we continued to focus our activities on the development of new formulations and potential new indications for our value drivers, avenanthramides and beta glucan.

No doubt that the successful development of technologies to produce dry formulations of our value drivers is the most important milestone so far achieved in our R&D program.

These formulations should enable us to produce larger quantities of higher purity products that should allow the eventual transition to other sectors like nutraceuticals and pharmaceuticals. The next step is to assess the suitability of these formulations for such development as tablets and capsules.

These products need to be strategically marketed and we are always looking at ways to market them better with enhanced representation around the globe. In line with our last year’s message, we have invested significantly in the assessment of different marketing strategies. While we will sell directly in some local markets in North America, we will concurrently pursue a global selling strategy mostly through a network of renowned distributors. For the cosmetics market, license and distribution agreements will be based on a key end customer basis and not necessarily on a “traditional” geographical basis. Discussions are ongoing with some major players in this industry and one such agreement has already been executed subsequent to year end.

Looking at key accomplishments in 2012, we are very proud of the tremendous efforts deployed by our dedicated people in achieving the following:

- Completion of first phase of special project for the relocation of Ceapro’s facility (planning & process design)
- Successful scale-up of supercritical fluid drying technology to produce pilot scale batches of beta glucan formulations
- Signing of two agreements for technologies from Agriculture and Agri-Food Canada to improve the yield of Ceapro’s flagship product, avenanthramides
- Successful development of lupin peptide powders
- Completion of *in vitro* performance testing at the National Research Council Institute for Nutrisciences and Health (NRC-INH) with favourable data to support Ceapro’s product claims in cosmetics applications

- Signing of agreements with distributors in Europe and Australia
- Subsequent to year end, Ceapro's expertise recognized by German-based multinational Symrise through the signing of a licensing and distribution agreement including a major credit line for the next three years.

From a financial perspective, year 2012 was more challenging and our year-end results were affected by two non-recurring events beyond our control. This resulted in the following:

- Sales of \$5,165,000 compared to \$5,786,000 in 2011, a decrease of 11%
- Loss from operations of \$515,000 compared to income of \$585,000 in 2011
- Net loss of \$538,000 compared to a net income of \$578,000 for 2011

Based on our upcoming initiatives, we are very positive for the year 2013 which should be a benchmark year. In addition to providing new generation products for our current market, we are attracting serious interest in our innovative technology platforms and products from major players in new market sectors such as nutraceuticals and pharmaceuticals.

In order to maintain this momentum, the successful implementation of our upcoming state-of-the-art facility remains our top priority for 2013. We are on track to complete this monumental milestone in the fourth quarter of 2013. We wish to thank our private and public partners like the Government of Alberta who is helping us to make it happen through a significant grant from Alberta Innovates Bio Solutions and Agriculture Financial Services Corporation who has been a long-term supporter and financial partner of Ceapro. Our vision is to be recognized as the Canadian leader in botanical actives and a centre of excellence in bioprocessing by 2015.

Looking forward, we expect Ceapro to increase its sales in 2013. While securing a smooth transition to our new facility, we will pursue the development of key prioritized projects with our value drivers, avenanthramides and beta glucan.

Our small group of employees has bought into these challenges and we wish to thank everyone for their efforts in striving to make Ceapro one of the best biotech companies in Canada.

Finally, we would like to thank our customers and our shareholders for their support and confidence.

GILLES R. GAGNON, M.SC., MBA  
PRESIDENT AND CEO

ED TAYLOR, CGA  
CHAIRMAN OF THE BOARD

May 10, 2013



## NEW MANUFACTURING FACILITY

During 2012, Ceapro selected a suitable location and commenced the work for its new home in south Edmonton. The new and unique facility comprising about 20,000 sq. ft. will incorporate all Ceapro operations including its head office, research and development, and manufacturing. It will be a facility that will allow new potential products developed in our laboratory to be scaled up in the Pilot scale wing, prior to full commercial production. This has been a long process and has resulted from a significant corporate effort over the last two years. Prior to selecting the location, we undertook a thorough due diligence of alternative manufacturing options as well as alternative locations and the answers came back very clearly: Ceapro needs to do its own manufacturing and the location selected was the most preferable.

Since we moved in to our Leduc facility in 2007, several factors besides revenue growth have contributed to the need to move. We anticipate that quality standards and regulation will continue to increase in all the sectors we will serve. Accordingly, this facility has been planned to meet cGMP international standards. In addition, Ceapro will seek a Natural Health Products site license from Health Canada.

Ceapro has a rich portfolio of technologies to support its platform products and many of these opportunities can only be developed in a new facility due to both space and regulatory restrictions. The convergence of the personal care markets Ceapro currently serves as well as the food and nutrition and pharmaceutical markets provide a huge opportunity to provide solutions for the insatiable appetite for more natural health solutions.

Our product platforms will finally have the opportunity to exploit new market opportunities as a result of technology advancements and this new facility. While we may sell oat beta glucan today in a liquid form for anti-aging products in personal care, we may be using our oat beta glucan powders under development for functional drinks to reduce the risk of high cholesterol and metabolic disease or for incorporating into wound healing products in the future.

Our other products also have potential to enter new large markets. The combination of Ceapro's strong technology, market sector convergence, health care market needs, and our new facility will allow for the potential of explosive growth in the coming years for Ceapro.

A special thank you must be given to the Government of Alberta. They have recognized the huge potential of bio-industrial processing today and created an environment conducive to growing this sector. We will work very hard to become a Bio-Industrial Centre of Excellence that we can all be proud of.



# AVENANTHRAMIDES - OUR FLAGSHIP INGREDIENT

Avenanthramides are a largely unknown group of therapeutic molecules found exclusively in oats, yet when it comes to our customers, it is how we are best recognized. Ceapro is the only commercial manufacturer of avenanthramides worldwide. Given their potent anti-inflammation, anti-histaminic, and anti-oxidant properties, these molecules are responsible for the therapeutic benefits and relief of symptoms in skin conditions resulting from eczema, chicken pox, and insect bites.

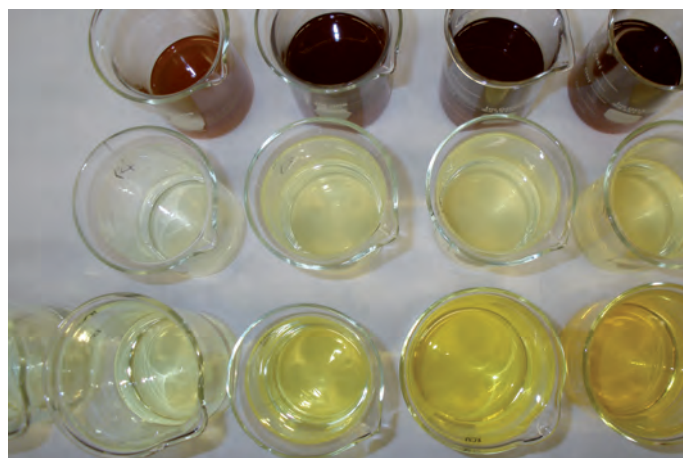
Recent findings from third parties are also of the highest interest to Ceapro. Their data suggest that avenanthramides, when taken orally, could be beneficial in serious conditions like inflammatory bowel syndrome, atherosclerosis, colon cancer, and joint inflammation. These findings led to the idea that avenanthramides could be developed as an active pharmaceutical ingredient (API). In order to achieve this, we need to produce them in adequate quantities to allow for a bioavailable formulation that will enable us to conduct clinical trials to demonstrate their safety and efficacy in targeted indications. So far, Ceapro has developed a robust process to extract avenanthramides from oats and this product has been sold exclusively to the personal care market. Due to the scarcity of suitable oats to extract, there have only been sufficient quantities available to serve the personal care market even though tremendous opportunities may exist in the functional food and pharmaceutical markets. We expect to change that in the near future.

## Agriculture and Agri-Food Canada (AAFC) Alliances

During 2012, Ceapro entered into two key agreements with Agriculture and Agri-Food Canada (AAFC) that have the potential to be transformative for Ceapro and allow for the exploitation of huge opportunities not possible otherwise. The first was a form of patented malting technology and the second was a new variety of oats (non-GMO) with very unique characteristics. When these two technologies are used together, Ceapro will have the ability to increase the content and concentration of avenanthramides from typical very low, non-commercial levels to levels far in excess of the best commercial oats on the market and that Ceapro has used to date. Studies conducted at two University hospitals in the United States have determined that oats will need higher levels of avenanthramides in order to obtain a dose with significant beneficial effects. The positive implications of these technologies are very substantial and include:

1. A large increase in extraction yield and gross margin for the existing business.
2. The ability to consider avenanthramide-rich oat products as a therapeutic food or a nutraceutical as a solution to some of the medical indications.
3. The possibility to get into the trendy "botanical drugs" area to address unmet medical needs, especially with our new purification techniques currently being scaled up.

Avenanthramides are a good illustration of Ceapro's innovative capacity that, when combined with other technology advancements, can become a multi-platform product in large unmet health sectors.



# OAT BETA GLUCAN

Last year in our annual report, we included a story about our Supercritical Fluid Drying Technology (SFD). We believe this technology is ideally suited for drying water soluble polysaccharides, gums, and biopolymers which require mild processing conditions to preserve the therapeutic properties of the active ingredients. Our work to date leads us to believe this can be developed into a platform novel drying technology and we would like to update you on the work we have done with our own oat beta glucan (OBG).

## Functional Food & Drinks/Nutraceuticals

The therapeutic value of OBG in reducing cholesterol and attenuating blood sugar levels is well documented. Ceapro's liquid OBG product is recognized as the highest quality product available today. Produced with our proprietary process, its superior quality is primarily due to its high purity, high molecular weight, and high viscosity. The absence of colour and very little odour is also making this product very attractive. During 2012, Ceapro showed that it could dry its OBG to a purity level in excess of 90% using SFD. Most importantly, the dried product retained its high molecular weight and viscosity, and was able to solubilize without clumping or agglomerating when placed in a liquid solution. These findings appear to make a strong case for producing an active ingredient to target high cholesterol and other conditions involved in metabolic diseases. Ceapro having shown it can make the product in a variety of formats including micro fibrils, fine powders, and granules, will take the next step in our research program to determine which format (powder for a drink, a tablet, or a capsule) will be the most suitable to provide the best therapeutic effect.

In 2013, work will be conducted to scale up and automate the process and decrease the cost of production to the maximum extent possible. It is expected that the drink and nutraceutical markets are large and a large multi-national partner will be sought to capitalize globally on this opportunity. This is expected to be a truly unique product that requires Ceapro's proprietary wet process and its SFD under development.

## Medical Biopolymers, a huge potential

Studies done by Ceapro have shown that its OBG is highly effective in stimulating collagen synthesis and can play a prominent role in skin restructuring and wound healing products. Ceapro OBG has also shown the unusual ability to penetrate skin deeply despite its large molecular weight. As a result, the use of OBG as a potential delivery system has attracted interest from multiple parties looking to improve the delivery of their therapeutic products. The potential to impregnate or encapsulate bioactives with the SFD has increased the interest in determining the potential of this delivery vehicle.

Ceapro intends to complete the development work of OBG and its feasibility models before the end of 2013. To date, the project has exceeded our expectations and the equipment designed and tested has performed as expected.

Once again, this project exemplifies Ceapro's high level of innovation capacity and the potential of Ceapro's products to penetrate new market opportunities that are very large.



## :: MANAGEMENT'S DISCUSSION & ANALYSIS

The MD&A provides commentary on the results of operations for the years ended December 31, 2012 and 2011, the financial position as at December 31, 2012, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 4, 2013. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2012, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2011 and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2011 which are prepared in accordance with International Financial Reporting Standards (IFRS). All comparative percentages are between the periods ended December 31, 2012 and 2011 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](http://www.sedar.com).

### FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Ceapro's future plans and operations as at April 4, 2013, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

### VISION, CORE BUSINESS, AND STRATEGY

Ceapro is incorporated under the Canada Business Corporations Act; and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc. are incorporated under the Alberta Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Ceapro is a growth stage biotechnology company. Our primary business activities relate to the development and commercialization of natural products for personal care, cosmetic, human, and animal health industries using proprietary technology and natural, renewable resources.

Our products include:

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

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

- *CeaProve*<sup>®</sup>, a diabetes test meal to screen pre-diabetes and to confirm diabetes diagnosis;
- A *drug delivery* platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging;
- An extension to *the active ingredients* product range offering, through new plant extract products including products from a unique variety of spearmint; and



- A variety of novel manufacturing technologies including “Supercritical Fluid” drying technology, which is currently being tested on oat beta glucan but may have application for multiple classes of compounds.

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

- Identifying unique plant sources and technologies capable of generating novel active natural products;
- Increasing sales and expanding markets for our current active ingredients;
- Developing and marketing additional high-value proprietary therapeutic natural products;
- Developing and improving manufacturing technologies to ensure efficiencies; and
- Advancing new partnerships and strategic alliances to develop new commercial active ingredients and manufacturing technologies.

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 and direct sales. Our marketing strategy emphasizes providing technical support to our distributors and their customers and generating direct sales to maximize the value of our technology and product utilization. Our vision and business strategy are supported by our commitment to the following core values:

- Adding value to all aspects of our business;
- Enhancing the health of humans and animals;
- Discovering, extracting, and commercializing new, therapeutic 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, government grants and loans, and other investment offerings.

## RISKS AND UNCERTAINTIES

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

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

### A) CREDIT RISK

#### Accounts receivable

The Company makes sales to customers that are well-established and well-financed within their respective industries. Based on previous experience, the counterparties have had very low default rates and management views

this risk as minimal. Approximately 97% of accounts receivable are due from four customers at December 31, 2012 and all accounts receivable are current. These main customers present good credit quality and historically have a high quality credit rating.

#### Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$273,106 at December 31, 2012 and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

The Company received \$750,000 under a capital expenditure grant agreement and has presented this amount as deferred revenue and considers it restricted cash as it can be spent only for qualified expenditures. During the year ended December 31, 2012, the Company has expended of \$41,223. The balance of this grant of \$708,777 is presented as deferred revenue and restricted cash and cash equivalents on the balance sheet.

There are no past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's accounts receivable, cash and cash equivalents, and restricted cash and cash equivalents. The Company does not hold any collateral as security.

## B) LIQUIDITY RISK

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. Under the renewed agreement with AFSC, the long-term debt matures in January 2018. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. In order to manage this liquidity risk, the Company regularly reviews its aged accounts receivable listing to ensure prompt collections. The Company regularly reviews its cash availability and whenever conditions permit, the excess cash is deposited in short-term interest bearing instruments to generate revenue while maintaining liquidity. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

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

	0 - 1 YEAR \$	1 - 3 YEARS \$	4 - 7 YEARS \$	8 - 12 YEARS \$	TOTAL \$
Accounts payable and accrued liabilities	578,216	–	–	–	578,216
Long-term debt, including interest	200,793	600,246	216,756	–	1,017,795
Royalties interest payable	25,037	–	–	–	25,037
Royalty financial liability	129,238	118,354	–	–	247,592
Repayable CAAP funding	–	177,590	177,590	118,393	473,573
<b>Total</b>	<b>933,284</b>	<b>896,190</b>	<b>394,346</b>	<b>118,393</b>	<b>2,342,213</b>

## C) MARKET RISK

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

### 1. Foreign currency risk

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

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

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (USD)	
		-1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
<b>Financial assets</b>			
Accounts receivable	254,623	2,546	(2,546)
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	27,436	(274)	274
<b>Total increase (decrease)</b>		<b>2,272</b>	<b>(2,272)</b>

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2012.

## 2. Interest rate risk

The Company has minimal interest rate risk because its long-term debt is a fixed rate of 3.71%.

## 3. Share price risk

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

## 4. People and process risk

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

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

### i) Loss of key personnel

Ceapro relies on certain key employees whose skills and knowledge are critical to maintaining the Company's success. Ceapro has procedures in place to identify and retain key employees and always attempts to be competitive with compensation and working conditions. The current robust economy in Alberta does increase these risks.

### ii) Interruption of raw material supply

Interruption of key raw materials could significantly impact operations and our financial position. Interruption of supply could arise from weather related crop failures or from market shortages. Ceapro attempts to purchase key raw

materials well in advance of their anticipated use and is in-licensing technologies from third parties to reduce this risk.

### iii) Environmental issues

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

### iv) Regulatory compliance

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

## FUTURE ACCOUNTING PRONOUNCEMENTS

### FINANCIAL INSTRUMENTS

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) in its entirety with IFRS 9 – Financial Instruments (“IFRS 9”) in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principle-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees, and certain other exceptions. The effective date of IFRS 9 is for annual periods beginning on or after January 1, 2015 (with earlier application permitted). The Company does not anticipate these amendments to have a significant impact on its consolidated financial statements.

### CONSOLIDATION

In May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements (“IFRS 10”), which supersedes SIC 12 and the requirements relating to consolidated financial statements in IAS 27 – Consolidated and Separate Financial Statements (“IAS 27”). IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances.

IFRS 10 establishes control as the basis for an investor to consolidate its investees and defines control as an investor’s power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor’s returns through its power over the investee.

In addition, the IASB issued IFRS 12 – Disclosure of Interest in Other Entities (“IFRS 12”) which combines and enhances the disclosure requirements for the Company’s subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Company’s interests in other entities and the effect of those interests on the Company’s consolidated financial statements.

Concurrently with the issuance of IFRS 10, IAS 27, and IAS 28 – Investments in Associates (“IAS 28”) were revised and reissued as IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures to align with the new consolidation guidance. The Company does not anticipate these amendments to have a significant impact on its consolidated financial statements.

## JOINT VENTURES

In May 2011, the IASB issued IFRS 11 – Joint Arrangements (“IFRS 11”), which supersedes IAS 31 – Interest in Joint Ventures and SIC-13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (“joint operators”) have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (“joint ventures”) have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognizes its portion of assets, liabilities, revenues, and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

## FAIR VALUE MEASUREMENT

In May 2011, as a result of a convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 – Fair value Measurement (“IFRS 13”). IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized. The Company does not anticipate the application of IFRS 13 to have a significant impact on its consolidated financial statements.

## FINANCIAL STATEMENTS PRESENTATION

In June 2011, the IASB issued amendments to IAS 1 – Presentation of Financial Statements (“IAS 1”) that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012 with earlier adoption permitted. The Company does not anticipate the application of the amendments to IAS 1 to have a material impact on its consolidated financial statements.

## EMPLOYEE BENEFITS

In June 2011, the IASB issued amendments to IAS 19 – Employee Benefits (“IAS 19”) that introduced changes to the accounting for the defined benefit plans and other employee benefits. The amendments include elimination of the options to defer, or recognize in full in earnings, actuarial gains and losses, and instead mandates the immediate recognition of all actuarial gains and losses in other comprehensive income, and requires use of the same discount rate for both the defined benefit obligation, and the expected asset return when calculating interest cost. Other changes include modification of the accounting for termination benefits and classification of other employee benefits. The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013. The Company does not anticipate the application of the amendments to IAS 19 to have a material impact on its consolidated financial statements.

## RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

### CONSOLIDATED INCOME STATEMENT

<i>\$000S EXCEPT PER SHARE DATA</i>	2012	%	2011	%	2010	%
<b>Total revenues</b>	<b>5,165</b>	<b>100%</b>	5,786	100%	5,577	100%
Cost of goods sold	<b>2,716</b>	<b>53%</b>	2,538	44%	3,061	55%
<b>Gross margin</b>	<b>2,449</b>	<b>47%</b>	3,248	56%	2,516	45%
Research and product development	<b>856</b>	<b>17%</b>	997	17%	774	14%
General and administration	<b>1,795</b>	<b>35%</b>	1,374	24%	1,279	23%
Sales and marketing	<b>199</b>	<b>4%</b>	111	2%	69	1%
Finance costs	<b>113</b>	<b>2%</b>	181	3%	203	4%
<b>(Loss) income from operations</b>	<b>(514)</b>	<b>– 10%</b>	585	10%	191	3%
Other operating loss	<b>(24)</b>	<b>0%</b>	(7)	0%	(30)	– 1%
Write-off of property and equipment	–	<b>0%</b>	–	0%	(12)	0%
SGGF legal fees recovery	–	<b>0%</b>	–	0%	315	6%
<b>Net (loss) income</b>	<b>(538)</b>	<b>– 10%</b>	578	10%	464	8%
Basic net (loss) income per common share	<b>(0.009)</b>		0.009		0.009	
Diluted net (loss) income per common share	<b>(0.009)</b>		0.009		0.009	
Total assets	<b>3,886</b>		4,171		2,820	
Long-term financial liabilities	<b>1,089</b>		1,206		1,384	

During the year ended December 31, 2012, the Company's revenue decreased by 11% or \$621,000 to \$5,165,000 from \$5,786,000 and cost of goods sold increased by 7% or \$178,000 to \$2,716,000 from \$2,538,000 in comparison with the same period of 2011.

These changes resulted in a decrease in gross margin by 25% or \$799,000 to \$2,449,000 from \$3,248,000. Income from operations has decreased by \$1,091,000 to loss of \$506,000 from income of \$585,000.

There was a net loss in the year ended December 31, 2012 of \$538,000 in comparison with net income in the same period of 2011 of \$578,000.

During the fourth quarter of 2012, the Company's revenue decreased by 23% or \$350,000 to \$1,202,000 from \$1,552,000 and cost of goods sold increased by 21% or \$135,000 to \$769,000 from \$634,000 in comparison with the same period of 2011. These changes resulted in a decrease in gross margin by 53% or \$485,000 to \$433,000 from \$918,000.

Income from operations has decreased by \$476,000 to loss of \$249,000 from income of \$227,000 during the fourth quarter of 2012 in comparison with the same period of 2011.

There was a net loss in the fourth quarter of 2012, \$237,000 in comparison with net income of \$252,000 in the same period of 2011 mostly due to a decrease in gross margin.

## REVENUE

\$000S	Year Ended December 31			Quarter Ended December 31		
	2012	2011	CHANGE	2012	2011	CHANGE
Total revenues	5,165	5,786	- 11%	1,202	1,552	- 23%

## PRODUCT SALES

Total sales in the year ended December 31, 2012 decreased by \$621,000 or 11% primarily as a result of lower sales volumes of beta glucan and veterinary shampoo premix that were rescheduled to 2013.

The sales in the fourth quarter of 2012 decreased \$350,000 or 23% primarily as a result of lower sales volumes of avenanthramides and veterinary shampoo premix that were rescheduled to 2013.

## EXPENSES

### COST OF GOODS SOLD AND GROSS MARGIN

\$000S	Year Ended December 31			Quarter Ended December 31		
	2012	2011	CHANGE	2012	2011	CHANGE
Sales	5,165	5,786	- 11%	1,202	1,552	- 23%
Cost of goods sold	2,716	2,538	7%	769	634	21%
Gross margin	2,449	3,248	- 25%	433	918	- 53%
<b>Gross margin %</b>	<b>47%</b>	56%		<b>36%</b>	59%	

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

During the year ended December 31, 2012, the cost of goods sold increased by \$178,000 or 7%, from \$2,538,000 in 2011 to \$2,716,000 in 2012. The gross margin in 2012 is lower by 25% mostly due to higher cost of goods sold and lower sales. The gross margin percentage decreased by 9% from 56% in 2011 to 47% in 2012. The main reasons for the decreases were lower quality of avenanthramide feed stocks and labor force retention challenges due to the robust Alberta economy.

During the fourth quarter of 2012, the cost of goods sold rose by \$135,000 or 21%, from \$634,000 in 2011 to \$769,000 in 2012. The gross margin in the fourth quarter of 2012 is lower by 53% due to lower revenue and higher cost of goods sold of certain higher margin products. The gross margin percentage decreased by 23% from 59% in the fourth quarter of 2011 to 36% in the same period of 2012. The same factors for the year end results were applicable in the fourth quarter. Additionally in the fourth quarter, certain products had to be written off and re-manufactured due to technical issues; these write-offs represent \$98,634.

## RESEARCH AND PRODUCT DEVELOPMENT

\$000S	Year Ended December 31			Quarter Ended December 31		
	2012	2011	CHANGE	2012	2011	CHANGE
Salaries and benefits	639	603		151	172	
Regulatory and patents	133	118		59	42	
Other	63	120		(84)	(1)	
	835	841	- 1%	126	213	- 41%
Product development – CeaProve®	21	156	- 87%	3	29	- 90%
Total research and product development expenditures	856	997	- 14%	129	242	- 47%

During the year ended December 31, 2012, research and development expenses before CeaProve® development decreased by 1% or \$6,000 during the same period of 2011 due to increased expenditures incurred for third party technical services and collaboration agreements offset by grant revenue recognition of discounted CAAP funding and grant contributions from Alberta Innovates Technology Futures. CeaProve® costs have decreased by 87% from \$156,000 to \$21,000 as a result of decreased costs for patents and decreased costs associated with contract manufacturing activities.

During the fourth quarter of 2012, research and development expenses before CeaProve® development have decreased by 41% mostly due to grant revenue recognition of discounted CAAP funding and grant contributions from Alberta Innovates Technology Futures. CeaProve® costs have decreased by 90% from \$29,000 to \$3,000 as a result of decreased costs for patents and decreased costs associated with contract manufacturing activities.

## GENERAL AND ADMINISTRATION

\$000S	Year Ended December 31			Quarter Ended December 31		
	2012	2011	CHANGE	2012	2011	CHANGE
Salaries and benefits	475	390		129	110	
Consulting	407	211		133	62	
Board of Directors compensation	155	174		33	41	
Insurance	120	121		33	32	
Accounting and Audit fees	76	113		25	35	
Rent	97	90		25	28	
Public Company Costs	82	53		13	2	
Travel	113	83		36	29	
Depreciation	45	35		12	12	
Legal	123	16		20	10	
Other	102	88		23	20	
Total general and administration expenses	1,795	1,374	31%	482	381	27%

General and administration expense for the year ended December 31, 2012 increased by \$421,000 or 31% from \$1,374,000 to \$1,795,000 as a result of increased expenses arising from several non-recurring events. Salaries and benefits increased \$85,000 mainly as a result of engaging an engineer to oversee the new manufacturing facility activities. Consulting increased \$196,000, most of which related to feasibility studies to review potential new



manufacturing options, including an examination of a third party contract manufacturer, and the appointment of a permanent CEO. Public company costs increased \$29,000 largely as a result of hiring an investor relations consultant in the first half of 2012. Legal fees increased by \$107,000 primarily due to AVAC litigation expenses. Travel increased \$30,000 with much of that increase related to new manufacturing options. Offsetting the increases, Board of Directors compensation decreased by \$19,000 and accounting and audit fees decreased by \$37,000 as a result of higher 2011 fees related to IFRS conversion work.

During the fourth quarter of 2012, general and administration expenses increased by \$101,000 or 27% mostly as a result of increased consulting costs of \$71,000, and salaries and benefits of \$19,000 partially offset by decreased expenses for directors' compensation of \$8,000, and accounting and audit fees of \$10,000. In general, the same factors that influenced the general and administrative costs for the year ended December 31, 2012 were applicable to the fourth quarter.

## SALES AND MARKETING

<i>\$000S</i>	Year Ended December 31			Quarter Ended December 31		
	2012	2011	CHANGE	2012	2011	CHANGE
Travel	60	45		13	10	
Consulting	101	36		16	9	
Advertising	20	12		6	3	
Courses & Conferences	3	9		3	1	
Other	15	9		2	3	
Total sales and marketing	199	111	79%	40	26	54%

Sales and marketing expenses in the year ended December 31, 2012 increased by \$88,000 or 79% in comparison with the same period of 2011 due primarily to consultant fees incurred to examine marketing strategies and branding evaluation options.

The fourth quarter of 2012 showed an increase in expenditures of \$14,000 or 54% versus 2011 as a result of higher attendance at industry trade shows and for technical support to our new US-based distributors.

The Company is continuing to evaluate marketing options and anticipates additional participation and expenditures at major personal care and cosmetic conferences. Our goal is to expand our business with existing customers and to explore potential opportunities with new customers.

## FINANCE COSTS

<i>\$000S</i>	Year Ended December 31			Quarter Ended December 31		
	2012	2011	CHANGE	2012	2011	CHANGE
Interest on royalty financial liability	38	44		10	5	
Interest on long-term loan	54	60		13	13	
Interest on convertible debentures	–	40		–	10	
Accretion of convertible debentures	–	32		–	9	
Accretion of CAAP loan	18	4		6	4	
Bank charges	3	1		2	1	
	113	181	– 38%	31	42	– 26%

As at December 31, 2012, royalty investors received royalties equal to 2.285% (2011 – 2.285%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products and CeaProve®, to a maximum of two times the amount invested. AVAC Ltd. receives royalties of up to 2.5% to 5% of revenues from eligible product sales, to a maximum of one and a half to two times the amount invested. Royalty expense will vary directly with fluctuations in eligible product sales, royalty, license and product development fees, product sales mix, and any new royalty interest offerings that may be completed.

Finance costs decreased in the year ended December 31, 2012 in comparison with the same period of 2011 due to decreasing interest expenses on royalty financial liabilities of \$6,000 and interest on a long-term loan of \$6,000 as a result of lower principal due to repayments.

On December 31, 2009, the Company issued secured convertible debentures for cash of \$500,000. The debentures incurred interest at 8% per annum and matured on December 31, 2011. In the year ended December 31, 2011, the Company recorded interest expense on convertible debentures in the amount of \$40,000 and accretion of \$32,000, and for the three months ended December 31, 2011, interest was \$10,000 and accretion of \$9,000 versus no expenses in the year ended December 31, 2012.

The Company entered into Canadian Agricultural Adaptation Program (“CAAP”) repayable contribution agreements for total possible funding of \$1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily decommitted \$668,557 as a result of lower anticipated project expenditures to the maximum possible funding under the agreement of \$671,068. The end date for project expenditures and start date for repayments were also extended one year to September 30, 2013 and to December 31, 2014 respectively. As the contributions are non-interest bearing, the fair value at inception is estimated as the present value of the principal payments required, discounted using the prevailing market rates of interest for a similar instrument estimated to be 15% per annum. The difference between the fair value of the contributions and the cash received is accounted for as a government grant. The first payment was received in the first quarter of 2011. Accretion of the CAAP loan was \$18,000 in the year ended December 31, 2012 (2011 – \$4,000).

## OTHER OPERATING LOSS (INCOME)

\$000S	Year Ended December 31			Quarter Ended December 31		
	2012	2011	CHANGE	2012	2011	CHANGE
Foreign exchange (gains) losses	29	32		(9)	(1)	
Other (income) expenses	(5)	(25)		(3)	(24)	
	24	7	357%	(12)	(25)	– 60%

Foreign exchange losses in the year ended December 31, 2012 were \$29,000 in comparison with \$32,000 in 2011 due to the weaknesses of the Canadian dollar versus the US dollar during the year ended December 31, 2012 in comparison with 2011.

Foreign exchange gains of \$9,000 in the fourth quarter of 2012 in comparison with \$1,000 gains in the same period of 2011 were due to the strengthening of the Canadian dollar versus the US dollar in the fourth quarter of 2012.

## DEPRECIATION AND AMORTIZATION EXPENSES

In 2012, the total depreciation and amortization of \$293,000 (2011 – \$297,000) was allocated as follows: \$46,000 to general and administration expense (2011 – \$35,000), \$43,000 to inventory (2011 – \$35,000), and \$204,000 (2011 – \$227,000) to cost of goods sold. The amount of depreciation and amortization in 2012 was less than in 2011 because of full amortization of some equipment.

## QUARTERLY INFORMATION

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

\$000S EXCEPT PER SHARE DATA	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues	1,202	1,283	1,490	1,190	1,552	1,515	1,185	1,534
Net income (loss)	(237)	(137)	(160)	(4)	252	(108)	104	330
Basic net income (loss) per common share	(0.004)	(0.002)	(0.003)	(0.000)	0.005	(0.002)	0.002	0.006
Diluted net income (loss) per common share	(0.004)	(0.002)	(0.003)	(0.000)	0.005	(0.002)	0.002	0.006

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

## LIQUIDITY AND CAPITAL RESOURCES

### CAPITAL EMPLOYED

\$000S	December 31, 2012	December 31, 2011
Non-current assets	1,508	2,307
Current assets	2,378	1,864
Current liabilities	(2,566)	(1,510)
<b>Total assets less current liabilities</b>	<b>1,320</b>	<b>2,661</b>
Non-current liabilities	1,306	2,143
Shareholders' equity	14	518
<b>Total capital employed</b>	<b>1,320</b>	<b>2,661</b>

Non-current assets decreased by \$799,000 due to reclassification of restricted cash and cash equivalent of \$709,000 and decreased by \$41,000, a depreciation provision of \$293,000 offset by the acquisition of \$200,000 of property and equipment, and \$44,000 for a new license agreement for avenanthramide technology.

Current assets increased by \$514,000. Inventories were higher by \$99,000; accounts receivables and prepaid expenses were higher by \$25,000. Cash decreased over 2011 by \$319,000 and restricted cash and cash equivalent was reclassified from non-current assets of \$709,000.

Current liabilities totaling \$2,566,000 increased by the net amount of \$1,056,000 mostly due to sales orders prepayments increased by \$418,000 and restricted cash and cash equivalent received in 2011 under a capital expenditure grant agreement and recorded as deferred revenue, reclassified from non-current liabilities in the amount of \$709,000, current portion of long-term debt increase of \$14,000, royalty financial liability increased by \$21,000, repayable research funding repayments of \$52,000, trade payables and accrued liabilities decreased by \$46,000, royalty interest accrued of \$96,000 and repaid of \$104,000.

Non-current liabilities totaling \$1,306,000 decreased by the net amount of \$837,000 due to long-term debt reclassification to current liabilities of \$14,000 and repayment of \$154,000, repayable research funding repayment of \$32,000, royalty financial liability decreased by \$80,000 and deferred revenue reclassified to current liabilities in the

amount of \$709,000 and decrease of \$41,000; additional accrued employee future benefit obligation of \$30,000, and a discounted CAAP loan recognized in the amount of \$163,000.

Equity of \$14,000 at December 31, 2012 decreased by \$504,000 from equity of \$518,000 at December 31, 2011 due to net loss for the year ended December 31, 2012 of \$538,000 offset by recognition of share-based compensation in contributed surplus of \$34,000.

## NET DEBT

\$000S	December 31, 2012	December 31, 2011
Cash and cash equivalents	273	592
Current financial liabilities*	867	938
Non-current financial liabilities*	1,089	1,206
Total financial liabilities	1,956	2,144
<b>NET DEBT</b>	<b>1,683</b>	1,552

\* Current and non-current financial liabilities include accounts payable and accrued liabilities, current and non-current portion of long-term debt, royalty interest payable, current and non-current portion of repayable research funding, current and non-current portion of royalty financial liability, and a CAAP loan.

The Company's net debt increased by \$131,000 due to cash and cash equivalent decrease of \$319,000 and CAAP loan discounted amount recognized of \$163,000 offset by long-term debt repayment in the amount of \$154,000, repayable research funding repayment of \$85,000, royalty financial liability decreased by \$58,000 and a royalty interest payable decreased by \$8,000, accounts payable and accrued liabilities decrease of \$46,000.

## SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during 2012 and 2011.

\$000S	Year Ended December 31		Quarter Ended December 31	
	2012	2011	2012	2011
<b>Sources of funds:</b>				
Funds generated from operations (cash flow)	(274)	1,063	(197)	316
Changes in non-cash working capital items	249	157	(36)	49
Deferred revenue	-	750	-	750
Restricted cash received	41	-	41	-
Repayable CAAP Funding	350	123	167	-
Repayable research funding	-	50	-	-
	<b>366</b>	2,143	<b>(25)</b>	1,115
<b>Uses of funds:</b>				
Purchase of property and equipment	(200)	(126)	(67)	(38)
Purchase of license	(44)	(15)	-	(15)
Restricted cash received	-	(750)	-	(750)
Deferred revenue reduction	(41)	-	(41)	-
Interest paid	(92)	(411)	(13)	(61)
Repayment of royalty financial liability	(69)	(143)	(24)	(11)
Convertible debentures settlement	-	(130)	-	(130)
Repayable research funding repayment	(85)	(15)	(42)	(15)
Repayment of long term debt	(154)	(147)	(39)	(38)
	<b>(685)</b>	(1,737)	<b>(226)</b>	(1,058)
Net change in cash flows	<b>(319)</b>	406	<b>(251)</b>	57

Net change in cash flow decreased \$725,000 in 2012 and \$308,000 in the fourth quarter of 2012 in comparison with the same periods of 2011.

The Company estimates that the cash flows generated by its operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, maintain capital investment, and service debt needs.

The Company relies upon revenues generated from the sale of active ingredients, 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 as at April 4, 2013 were 60,278,948 (April 27, 2012 – 60,278,948). In addition, 4,130,000 stock options as at April 4, 2013 (April 27, 2012 – 3,170,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Ceapro's working capital deficiency was \$189,000 at December 31, 2012, which was decreased by \$543,000 from positive working capital of \$354,000 at December 31, 2011.

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

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

#### Government Funding

During the year ended December 31, 2010, the Company was approved for non-repayable funding in the amount of \$124,000 from Alberta Innovates Technology Futures (AITF). During the year ended December 31, 2012, the Company received \$32,083 (2011 – \$62,000) which was recorded as a reduction of research and product development expenses. The Company anticipates receiving an additional amount of \$9,166 in early 2013 under this agreement.

During the year ended December 31, 2012, the Company was approved for a second agreement for non-repayable funding in the amount of \$124,000 from AITF. During the year, the Company received \$20,750 which was recorded as a reduction of research and project development expenses. The Company anticipates receiving additional funding of \$62,000 in 2013 and \$41,250 in 2014 under this agreement.

The Company was approved for non-repayable funding for up to 50% of eligible costs to a maximum of \$99,900 under the Growing Forward Product Development program. The Company recognized \$nil during the year ended December 31, 2012 (2011 – \$60,076) as a reduction of research and product development expenses. This program has now been completed.

The Company was approved for non-repayable funding in the amount of \$50,000 for eligible costs from the Atlantic Canada Opportunities Agency. The Company recognized \$nil during the year ended December 31, 2012 (2011 – \$10,879) as a reduction of research and product development expenses. This program has now been completed.

The Company was approved for non-repayable funding to a maximum of \$21,250 of eligible expenditures under the Novel Crops Initiative program from the Prince Edward Island Department of Agriculture. The Company recorded the amount of \$5,000 as a reduction of research and product development expenditures under this program in the period ended December 31, 2012 (2011 – \$5,000). The Company anticipates receiving an additional amount of \$5,000 in 2013 under this program.

The Company received a repayable non-interest bearing contribution for research and development expenditures totaling \$100,000 by 2011 (2010 – \$50,000 of the \$100,000 was received) from Innovation PEI which was recorded as a repayable research funding liability on the consolidated balance sheet. The amount of \$15,367 was repaid during 2011. The contribution was repayable quarterly at a rate of one percent of sales revenue subject to a minimum payment of \$12,500 per quarter. The Company repaid the full liability during the year ended December 31, 2012.

In 2011, the Company was approved for non-repayable grant funding from Innovation PEI for a maximum of \$100,000. During the year ended December 31, 2011, the Company received \$30,000 and recognized \$19,500 against eligible expenses and \$10,500 as deferred revenue. During the year ended December 31, 2012, the balance of \$70,000 potentially receivable was decommitted and the Company recognized \$10,500 as deferred revenue. No further amount is expected.

The Company entered into Canadian Agricultural Adaptation Program (“CAAP”) repayable contribution agreements for total possible funding of \$1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to \$671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended one year to September 30, 2013. All amounts claimed under the program are repayable interest free over eight years beginning in 2014. The Company has received funding of \$473,573 to date under this program. A maximum funding amount of \$197,495 is anticipated to be received in 2013.

During the year ended December 31, 2011, the Company commenced a research and development project agreement. Under this project, the Company paid cash of \$56,177 in 2011 and made additional payments of \$28,236 in 2012. The other party to the research and development project agreement made an in-kind contribution to the project of \$42,262. The agreement was completed in 2012.

During the year ended December 31, 2011, the Company entered into a Contribution Agreement with Alberta Innovates Bio Solutions (AI-Bio Solutions) for a non-repayable grant contribution totaling up to \$1,600,000 towards the construction of a new bio-processing facility and subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received \$750,000 in 2011 classified as restricted cash and cash equivalents and deferred revenue, and anticipates additional amounts will be received as follows: \$690,000 in 2013 and \$160,000 in 2014. An amount of \$41,223 was recorded as a reduction of capitalized expenditures.

During the year ended December 31, 2012, the Company entered into a contribution agreement with an agency of the federal government to provide funding of up to \$253,000 for certain research activities. During the year ended December 31, 2012, the Company received or recorded as receivable the amount of \$42,091. The Company estimates it will receive a further amount of \$177,659 in 2013 and \$33,250 in 2014.

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

## RELATED PARTY TRANSACTIONS

During the year ended December 31, 2012, \$19,000 (2011 – \$22,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at December 31, 2012, \$5,000 (2011 – \$6,000) of royalties were payable to employees and directors.

During the year ended December 31, 2012, officers and directors earned \$nil of interest on convertible debentures (2011 – \$6,000).

During the year ended December 31, 2012, the Company paid key management salaries, short-term benefits, consulting fees and director fees totaling \$657,000 (2011 – \$485,000), and key management personnel received share-based payments of \$34,000 (2011 – \$49,000).

During the year ended December 31, 2012, directors converted \$nil (2011 – \$175,000) of fees payable to nil (2011 – 1,590,909) common shares of the Company. Directors and officers converted \$nil (2011 – \$70,000) of the principal amount of matured convertible debentures to 700,000 common shares of the Company. Amount payable to directors was \$29,000 (2011 – \$175,000).

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

## COMMITMENTS AND CONTINGENCIES

- a) During the year ended December 31, 2011, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$724,500 pursuant to a product development agreement. The Company and Ceapro Veterinary Products Inc. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.
- b) During the year ended December 31, 2012, the Company and its wholly-owned subsidiary, Ceapro Technology Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$1,470,000 pursuant to two product development agreements. The Company and Ceapro Technology Inc. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.
- c) During the year ended December 31, 2008, the Company entered into a licensing agreement with the University of Guelph for an exclusive variety of a mint plant. During the year ended December 31, 2011, the Company has entered into a new licensing agreement with the University of Guelph for additional market rights for the exclusive variety of a mint plant.

In accordance with the new agreement, there are future minimum royalty prepayments of \$10,000 per annum starting in 2012 for royalty payments which will be calculated as 5% of net sales from products derived from the mint plants. The minimum royalty payments are creditable against royalties in years where royalties are due. The agreement is an executory contract and therefore all royalty payments under the contract will be recognized as they become due.

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

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

And \$50,000 each year thereafter while the license agreement remains in force.

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

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

## OUTLOOK

We have focused our research investments on the development of new formulations and potential new indications for our value drivers: avenanthramides and beta glucan. As well as assessing new marketing strategies, most of the effort, time, and money in 2012 have been deployed in planning for the establishment of a new state-of-the-art manufacturing facility which will also house our offices and laboratories. We expect the transition to the new site to be completed by end of 2013. This new centre should allow for cost reductions through increased extraction efficiencies and the integration of all our employees under one roof. In all, we expect to improve our margins on existing products and to commercially produce our new products that are the focus of today's research activities.

A comprehensive plan has been put in place to secure a smooth transition while maintaining and developing our business in a focused and prioritized manner. Financial results for 2012 were below expectations; however, based on our current strong order book and upcoming initiatives, we remain very positive for 2013. We are attracting serious interest in our innovative technology platforms and products from major players in new market sectors like nutraceuticals. In addition, the construction project for the new facility is on track for completion in the fourth quarter of 2013. Over and above these initiatives, and in line with our long-term strategy, we continue to evaluate additional opportunities for growth including contract manufacturing opportunities. Our vision is to be recognized as the Canadian leader in botanical actives and a centre of excellence in bioprocessing by 2015.

## 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](http://www.sedar.com).



## :: CONSOLIDATED FINANCIAL STATEMENTS

### MANAGEMENT'S REPORT

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

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

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

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

The Board of Directors carries out its responsibility for the consolidated financial statements in the report principally through its Audit Committee. The Audit Committee is appointed by the Board, and all of its members are outside and unrelated Directors. The Committee meets periodically with Management and the external auditors to discuss internal controls over the financial reporting process and financial reporting issues, to make certain that each party is properly discharging its responsibilities, and to review quarterly reports, the annual report, the annual consolidated financial statements, management's 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, Grant Thornton LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

SINCERELY,

**SIGNED "Gilles Gagnon"**  
President and Chief Executive Officer

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



## Independent auditor's report

**Grant Thornton LLP**  
1701 Scotia Place 2  
10060 Jasper Avenue NW  
Edmonton, AB  
T5J 3R8  
T +1 780 422 7114  
F +1 780 426 3208  
[www.GrantThornton.ca](http://www.GrantThornton.ca)

To the Shareholders of  
Ceapro Inc.

We have audited the accompanying consolidated financial statements of Ceapro Inc., which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of net (loss) income and comprehensive (loss) income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ceapro Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of \$538,353 during the year ended December 31, 2012 and, as of that date, the Company had an accumulated deficit of \$6,734,086. In fiscal 2013 the Company will also be required to obtain additional funding, estimated at \$3,000,000, to finance leasehold improvements and the purchase of equipment for a new manufacturing facility. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Edmonton, Canada

April 4, 2013



Chartered Accountants

CONSOLIDATED BALANCE SHEETS

	December 31 2012 \$	December 31 2011 \$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	273,106	592,259
Restricted cash and cash equivalents (note 8)	708,777	-
Accounts receivable	453,188	465,446
Inventories (note 3)	790,057	691,411
Prepaid expenses and deposits	152,778	115,015
	<b>2,377,906</b>	1,864,131
<b>Non-Current Assets</b>		
Restricted cash and cash equivalents (note 8)	-	750,000
Licenses (note 4)	73,717	36,000
Property and equipment (note 5)	1,434,345	1,520,659
	<b>1,508,062</b>	2,306,659
<b>TOTAL ASSETS</b>	<b>3,885,968</b>	4,170,790
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	578,216	624,154
Current portion of deferred revenue (note 8)	1,699,110	571,524
Current portion of long-term debt (note 6)	168,637	154,465
Royalties interest payable (note 7b)	25,037	33,366
Current portion of royalty financial liability (note 7b)	95,378	74,057
Current portion of repayable research funding (note 23)	-	52,133
	<b>2,566,378</b>	1,509,699
<b>Non-Current Liabilities</b>		
Royalty financial liability (note 7b)	109,931	189,566
Employee future benefits obligation (note 9)	217,219	187,302
Deferred revenue (note 8)	-	750,000
Long-term debt (note 6)	757,898	926,535
CAAP loan (note 11)	220,978	57,432
Repayable research funding (note 23)	-	32,500
	<b>1,306,026</b>	2,143,335
<b>Equity</b>		
Share capital (note 10b)	6,315,858	6,315,858
Contributed surplus (note 10c)	431,792	397,631
Deficit	(6,734,086)	(6,195,733)
	<b>13,564</b>	517,756
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,885,968</b>	4,170,790

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"  
Director

SIGNED: "Edward Taylor"  
Director

**CONSOLIDATED STATEMENTS OF NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME**

Years ended December 31	2012 \$	2011 \$
Revenue (note 12)	<b>5,165,276</b>	5,786,174
Cost of goods sold	<b>2,716,605</b>	2,538,347
Gross margin	<b>2,448,671</b>	3,247,827
Research and product development	<b>856,191</b>	996,719
General and administration	<b>1,795,476</b>	1,374,030
Sales and marketing	<b>198,650</b>	111,359
Finance costs (note 15)	<b>112,900</b>	180,808
(Loss) income from operations	<b>(514,546)</b>	584,911
Other operating loss (note 14)	<b>(23,807)</b>	(7,338)
Net (loss) income and comprehensive (loss) income for the year	<b>(538,353)</b>	577,573
Net (loss) income per common share (note 24):		
Basic	<b>(0.01)</b>	0.01
Diluted	<b>(0.01)</b>	0.01
Weighted average number of common shares outstanding	<b>60,278,948</b>	56,561,513

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital \$	Equity component of convertible debentures \$	Contributed surplus \$	Deficit \$	Equity \$
Balance December 31, 2010	5,770,858	45,000	347,445	(6,818,306)	(655,003)
Share issued for debt	545,000	-	-	-	545,000
Share-based payments	-	-	50,186	-	50,186
Transfer to deficit	-	(45,000)	-	45,000	-
Net income for the year	-	-	-	577,573	577,573
Balance December 31, 2011	6,315,858	-	397,631	(6,195,733)	517,756
Share-based payments	-	-	34,161	-	34,161
Net loss for the year	-	-	-	(538,353)	(538,353)
Balance December 31, 2012	6,315,858	-	431,792	(6,734,086)	13,564

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31	2012 \$	2011 \$
<b>OPERATING ACTIVITIES</b>		
Net (loss) income for the year	(538,353)	577,573
Adjustments to reconcile net (loss) income to cash and cash equivalents provided by operating activities		
Finance costs	94,734	143,967
Depreciation and amortization	292,525	297,282
Accretion on convertible debentures	-	32,500
Accretion of CAAP loan	18,166	4,341
Grant revenue recognized	(188,312)	(69,990)
Extinguishment of the original liabilities	(119,772)	-
Recognition new liabilities	102,972	-
Employee future benefits obligation	29,917	27,115
Share-based payments	34,161	50,186
Net (loss) income for the year adjusted for non-cash items	(273,962)	1,062,974
<b>CHANGES IN NON-CASH WORKING CAPITAL ITEMS</b>		
Accounts receivable	12,258	104,915
Inventories	(98,646)	(411,986)
Prepaid expenses and deposits	(37,763)	(44,785)
Deferred revenue	418,809	571,524
Accounts payable and accrued liabilities	(45,954)	(63,009)
	248,704	156,659
	(25,258)	1,219,633
Interest paid	(91,956)	(411,393)
<b>CASH GENERATED FROM OPERATIONS</b>	<b>(117,214)</b>	<b>808,240</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(199,489)	(125,889)
Purchase of licenses	(44,439)	(15,000)
	(243,928)	(140,889)
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(154,465)	(146,426)
Repayable CAAP Funding	350,492	123,081
Deferred revenue	(41,223)	750,000
Restricted cash and cash equivalents	41,223	(750,000)
Convertible debentures	-	(130,000)
Repayable research funding	-	50,000
Repayable research funding repayment	(84,633)	(15,367)
Repayment of royalty financial liability	(69,405)	(143,070)
	41,989	(261,782)
(Decrease) increase in cash and cash equivalents	(319,153)	405,569
Cash and cash equivalents at beginning of year	592,259	186,690
<b>Cash and cash equivalents at end of year</b>	<b>273,106</b>	<b>592,259</b>

See accompanying notes

The non-cash transaction described in note 10(b) has been excluded from the statement of cash flows.

Cash and cash equivalents are comprised of \$137,150 (2011 – \$334,681) on deposit with financial institutions and \$135,956 (2011 – \$257,578) held in money market mutual funds.

# :: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012, AND 2011

## 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 Company's head office address is Suite 4174 Enterprise Square, 10230 Jasper Avenue, Edmonton, AB T5J 4P6.

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge liabilities in the normal course of operations. However, certain conditions exist that may cast significant doubt upon the validity of this assumption. During the year ended December 31, 2012, the Company incurred a net loss of \$538,353 and as of that date had accumulated a deficit of \$6,734,086.

In 2013, the Company will require additional funds, in excess of current committed funding, to construct leasehold improvements and purchase equipment for a new manufacturing facility to execute its business plan. The current total estimated financial commitments are \$4,700,000 and additionally, future operating lease commitments as highlighted in note 20 have been made in support of the new manufacturing facility. As at December 31, 2012, the Company has cash and cash equivalents of \$708,777 restricted for development of the new facility and commitments for an additional \$1,030,000, \$850,000 of which is with respect to note 23j in the consolidated financial statements. The Company anticipates that it will require additional funds in an amount currently estimated at \$3,000,000 to complete the project.

Since inception, the Company has accumulated net losses, generated inconsistent 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 consistent positive cash flow. Management is pursuing additional funding with long term partners, government programs, and other sources to fully fund its anticipated needs. There can be no assurance that the Company will be able to access capital when needed, achieve profitability, or generate positive cash flow.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### A) STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Board of Directors authorized these consolidated financial statements for issue on April 4, 2013.



## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B) BASIS FOR PRESENTATION

These consolidated financial statements have been prepared on the historical cost basis. All transactions are recorded on an accrual basis.

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

All intercompany accounts and transactions have been eliminated on consolidation.

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

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

#### Management critical judgments

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

##### FUNCTIONAL CURRENCY

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

##### LEASE

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

#### Management estimates and assumptions

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

##### EMPLOYEE BENEFITS

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

#### PROVISIONS

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

#### TAXATION

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

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

#### INVENTORIES

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

#### PROPERTY AND EQUIPMENT

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

#### FINANCIAL INSTRUMENTS

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

#### SHARE-BASED PAYMENTS

The fair value of share-based payments is determined using the Black Scholes option pricing model based on estimated fair values at the date of grant. The Black Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the award. Changes in these assumptions can significantly affect the fair value estimate. For more information see note 10.

### **D) CASH AND CASH EQUIVALENTS**

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

### **E) REVENUE RECOGNITION**

Revenues from the sale of health and wellness products are recognized as revenues at the time the products are shipped to customers, title passes, significant risks and rewards have been transferred, and collectability is reasonably assured. Revenues are measured at the fair value of consideration received or receivable, less a provision for uncollectible amounts, excluding discounts, rebates, and sales taxes.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### F) INVENTORIES

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

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

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

### G) PROPERTY AND EQUIPMENT

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

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

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

### H) BORROWING COSTS

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

### I) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

### J) LEASES

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

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

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

## **K) INTANGIBLE ASSETS**

### **Licenses**

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

### **Research and product development expenditures**

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

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

## **L) TRADE RECEIVABLES**

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

## **M) FOREIGN CURRENCY TRANSACTIONS**

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

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

## **N) INCOME TAXES**

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

### O) GOVERNMENT ASSISTANCE

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

### P) INVESTMENT TAX CREDITS

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

### Q) INCOME (LOSS) PER COMMON SHARE

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

### R) SHARE-BASED PAYMENTS

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

### S) EMPLOYEE FUTURE BENEFITS

The Company accrues its obligations under an employee defined retirement benefit plan and related costs. The cost of retirement benefits earned by employees is determined using the projected unit credit method and management's best estimate of expected retirement ages of employees. The discount rate used is based on the interest rates for high quality corporate bonds. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur. The Company recognizes actuarial gains and losses in profit or loss.

### T) PROVISIONS

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the

obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

## U) TRADE AND OTHER PAYABLES

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

## V) FINANCIAL INSTRUMENTS

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

- i) Cash and cash equivalents, restricted cash and cash equivalents, and accounts receivable have been classified as loans and receivables and are measured at amortized cost using the effective interest method, less any allowance for uncollectability. The Company recognizes purchase or sale of financial assets using trade date accounting.
- ii) Accounts payable and accrued liabilities, long-term debt, royalties payable, repayable research funding, the royalty financial liability, and the CAAP loan are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

## W) CONSOLIDATED STATEMENT OF CASH FLOWS

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

## X) FUTURE CHANGES IN ACCOUNTING POLICIES

### FINANCIAL INSTRUMENTS

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principle-based and less complex than IAS 39.

In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees, and certain other exceptions. The effective date of IFRS 9 is for annual periods beginning on or after January 1, 2015 (with earlier application permitted). The Company has not yet assessed the impact that this new standard is likely to have on its consolidated financial statements.

### CONSOLIDATION

In May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements ("IFRS 10"), which supersedes SIC 12 and the requirements relating to consolidated financial statements in IAS 27 – Consolidated and Separate Financial Statements ("IAS 27"). IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances.

IFRS 10 establishes control as the basis for an investor to consolidate its investees and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee.

In addition, the IASB issued IFRS 12 – Disclosure of Interest in Other Entities ("IFRS 12") which combines and enhances the disclosure requirements for the Company's subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Company's interests in other entities and the effect of those interests on the Company's consolidated financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concurrently with the issuance of IFRS 10, IAS 27, and IAS 28 – Investments in Associates (“IAS 28”) were revised and reissued as IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures to align with the new consolidation guidance.

The Company does not anticipate this new standard to have a significant impact on its consolidated financial statements.

### JOINT VENTURES

In May 2011, the IASB issued IFRS 11 – Joint Arrangements (“IFRS 11”), which supersedes IAS 31 – Interest in Joint Ventures and SIC-13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (“joint operators”) have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (“joint ventures”) have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognizes its portion of assets, liabilities, revenues, and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method.

The Company does not anticipate these amendments to have a significant impact on its consolidated financial statements.

### FAIR VALUE MEASUREMENT

In May 2011, as a result of a convergence project undertaken by the IASB and the US Financial Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 – Fair value Measurement (“IFRS 13”). IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized.

The Company does not anticipate the application of IFRS 13 to have a significant impact on its consolidated financial statements.

### FINANCIAL STATEMENTS PRESENTATION

In June 2011, the IASB issued amendments to IAS 1 – Presentation of Financial Statements (“IAS 1”) that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012 with earlier adoption permitted.

The Company does not anticipate the application of the amendments to IAS 1 to have a material impact on its consolidated financial statements.

### EMPLOYEE BENEFITS

In June 2011, the IASB issued amendments to IAS 19 – Employee Benefits (“IAS 19”) that introduced changes to the accounting for the defined benefit plans and other employee benefits. The amendments include elimination of the options to defer, or recognize in full in earnings, actuarial gains and losses, and instead mandates the immediate recognition of all actuarial gains and losses in other comprehensive income, and requires use of the same discount rate

for both the defined benefit obligation and the expected asset return when calculating interest cost. Other changes include modification of the accounting for termination benefits and classification of other employee benefits. The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013.

The Company does not anticipate the application of the amendments to IAS 19 to have a material impact on its consolidated financial statements.

### 3. INVENTORIES

The Company had the following inventory at the end of each reporting period:

	<b>December 31 2012 \$</b>	December 31 2011 \$
Raw materials	<b>258,439</b>	251,010
Work in progress	<b>113,399</b>	227,888
Finished goods	<b>418,219</b>	212,513
	<b>790,057</b>	691,411

Inventories expensed to cost of goods sold during the year ended December 31, 2012 is \$2,655,930 (2011 – \$2,475,938).

During the year ended December 31, 2012, the Company decreased the carrying value of inventory by \$98,634 (2011 – \$nil) due to lower estimated realizable values from certain finished goods and included this amount in cost of goods sold.



## 4. LICENSES

During the year ended December 31, 2012, the Company has entered into a new license agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of \$44,439 to cover previous patent costs and will amortize the license over 15 years commencing in April 2012. Amortization of \$2,222 has been included in general and administration for the year ended December 31, 2012 (2011 – \$nil) (see note 19(d)).

During the year ended December 31, 2011, the Company entered into a new licensing agreement with the University of Guelph for an exclusive variety of a mint plant. This agreement replaced the agreement the Company entered during the year ended December 31, 2008. The Company paid a licensing fee of \$30,000 in 2008 and \$15,000 in 2011 and will amortize the total license over 10 years, being the term of the amended licensing agreement. Amortization of \$4,500 has been included in general and administration for the year ended December 31, 2012 (2011 – \$3,000) (see note 19(c)).

Cost of Licenses	\$
Balance – December 31, 2010	30,000
Additions	15,000
Balance – December 31, 2011	45,000
Additions	44,439
Balance – December 31, 2012	89,439
Accumulated amortization	
Balance – December 31, 2010	6,000
Amortization	3,000
Balance – December 31, 2011	9,000
Amortization	6,722
Balance – December 31, 2012	15,722
Net book value	
Balance – December 31, 2012	73,717
Balance – December 31, 2011	36,000

## 5. PROPERTY AND EQUIPMENT

<b>Cost</b>	Equipment not available for use \$	Manufacturing Equipment \$	Office Equipment \$	Computer Equipment \$	Leasehold Improvements \$	Total \$
December 31, 2010	176,431	2,698,422	76,280	250,364	120,364	3,321,861
additions	31,319	86,540	1,001	7,029	–	125,889
December 31, 2011	207,750	2,784,962	77,281	257,393	120,364	3,447,750
additions	20,921	138,306	2,753	37,509	–	199,489
transfer to manufacturing equipment	(204,301)	204,301	–	–	–	–
December 31, 2012	24,370	3,127,569	80,034	294,902	120,364	3,647,239
<b>Accumulated depreciation</b>						
December 31, 2010	–	1,282,477	58,522	180,067	111,743	1,632,809
depreciation	–	263,031	3,586	21,706	5,959	294,282
December 31, 2011	–	1,545,508	62,108	201,773	117,702	1,927,091
depreciation	–	255,451	3,426	24,264	2,662	285,803
December 31, 2012	–	1,800,959	65,534	226,037	120,364	2,212,894
<b>Carrying value</b>						
December 31, 2012	24,370	1,326,610	14,500	68,865	–	1,434,345
December 31, 2011	207,750	1,239,454	15,173	55,620	2,662	1,520,659

Depreciation expense allocation for the following years:

	Cost of goods sold \$	Inventory \$	General and administration \$	Total \$
Year ended December 31, 2012	204,222	42,989	38,592	285,803
Year ended December 31, 2011	227,150	34,958	32,174	294,282

## 6. LONG-TERM DEBT

	<b>December 31 2012 \$</b>	December 31 2011 \$
Loan payable secured by a general security agreement, due January, 2018.	<b>926,535</b>	1,081,000
Less current portion	<b>168,637</b>	154,465
	<b>757,898</b>	926,535

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

Year Ended December 31, 2012	54,148
Year Ended December 31, 2011	59,842

During the year ended December 31, 2012, the loan was renewed to January 1, 2018 at an interest rate of 3.710% (2011 – 5.49%) with monthly payments of \$16,674 (2011 – \$17,384) starting February 1, 2013.

The loan is secured by a general security agreement covering all present and after acquired personal property. The Company is in compliance with all terms and conditions of the new agreement.

## 7. ROYALTIES PAYABLE

a) In the year ended December 31, 2004, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling \$250,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2012, \$225,000 (2011 – \$225,000) of this commitment has been received and the remaining \$25,000 was decommitted. CTI is obligated to pay a royalty (to a maximum of two times the financial assistance received) on sales generated from CeaProve® on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. No royalties have been paid or accrued during the current or prior years. CTI has repaid at December 31, 2012 \$nil (2011 – \$nil) of this obligation. Upon completion of the repayment of the financial assistance received, CTI will also be required to repay \$19,750 advanced during the year ended December 31, 2002. The portion of this obligation paid or accrued as at December 31, 2012 was \$nil (2011 – \$nil). The potential amount payable per agreement as at December 31, 2012 is \$469,750 (2011 – \$469,750) (see note 7(e)).

b) On December 28, 2005, the Company sold a 2.285% royalty interest in the Company's future sales and licensing of certain active ingredients, animal health, and CeaProve® products for \$457,000. The maximum royalties payable are two times the amount invested or \$914,000. The portion of this obligation paid or accrued as at December 31, 2012 was \$666,407 (2011 – \$570,157). During the year, the Company repaid \$104,579 through cash payments (2011 – \$244,628). The balance of royalties payable under this offering as at December 31, 2012 totaled \$25,037 (2011 – \$33,366). The potential amount payable per agreement as at December 31, 2012 is \$247,593 (2011 – \$343,843) (see note 7(e)). The balance outstanding was set up as a royalty financial liability which results in a discounted liability of \$205,309 (2011 – \$263,623).

	<b>Year Ended December 31 2012 \$</b>	Year Ended December 31 2011 \$
<b>Royalty interest payable</b>		
Opening amount of royalties interest payable	33,366	166,612
Royalty expense recognized	96,250	111,401
Amount paid during the year	(104,579)	(244,647)
<b>Closing amount of royalties interest payable</b>	<b>25,037</b>	<b>33,366</b>

	<b>Year Ended December 31 2012 \$</b>	Year Ended December 31 2011 \$
<b>Royalty financial liability</b>		
Opening amount of royalty financial liability	263,623	329,435
Principal repayment of the discounted amount during the year	(58,314)	(65,812)
<b>Closing amount of royalty financial liability</b>	<b>205,309</b>	<b>263,623</b>
Less current portion	95,378	74,057
	<b>109,931</b>	189,566

	<b>Year Ended December 31 2012 \$</b>	Year Ended December 31 2011 \$
Interest expense paid during the year	37,936	43,663

c) In the year ended December 31, 2005, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. (CVP), received a commitment for financial assistance totaling \$362,250 for product innovation development in the area of Veterinary Therapeutics and Active Ingredients. As at December 31, 2012, \$362,250 (2011 – \$362,250) of the commitment has been received. The Company and CVP are obligated to pay a 2.5% royalty to a maximum of \$75,000 per quarter (to a maximum of two times the financial assistance received or \$724,500) on sales generated from products developed using these funds. The portion of the obligation accrued and paid at December 31, 2012 was \$584 (2011 – \$234). The potential amount payable per agreement as at December 31, 2012 is \$723,916 (2011 – \$724,266) (see note 7(e)).

d) In the year ended December 31, 2005, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling \$800,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2012, \$510,000 of this commitment has been received (2011 – \$510,000) and the remaining \$290,000 has been decommitted. CTI is obligated to pay a royalty (to a maximum of one and a half times the financial assistance received or \$765,000) on sales of CeaProve® on the following basis: 0% of net sales and net sub-licensing revenues earned until royalty payments have been fully satisfied under the investment agreement in note 7(a), and 5% thereafter until repaid to a maximum of \$125,000 per quarter. No royalties have been incurred during the current year. The portion of this obligation paid or accrued as at December 31, 2012 was \$nil (2011 – \$nil). The potential amount payable per agreement as at December 31, 2012 is \$765,000 (2011- \$765,000) (see note 7(e)).

e) Potential royalties payable as at December 31, 2012, and 2011:

Notes	Year of agreement	Potential amount payable at December 31, 2012	Potential amount payable at December 31, 2011
7 (a)	2004	469,750	469,750
7 (b)	2005	247,593	343,843
7 (c)	2005	723,916	724,266
7 (d)	2005	765,000	765,000
<b>Total</b>		<b>2,206,259</b>	<b>2,302,859</b>

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

## 8. DEFERRED REVENUE

During the year ended December 31, 2011, the Company received \$750,000 under a non-repayable capital expenditure grant agreement with Alberta Innovates Bio-Solutions (AI-Bio Solutions) (note 23). During the year ended December 31, 2012, the Company has expended of \$41,223. The balance of this grant of \$708,777 (2011 – \$750,000) is presented as deferred revenue and restricted cash and cash equivalents on the balance sheet.

Deferred revenue also consists of \$990,333 (2011 – \$561,024) for prepaid sales orders and \$nil (2011 – \$10,500) for a research grant advanced in excess of expenditures made.

## 9. EMPLOYEE FUTURE BENEFITS OBLIGATION

The Company has an unfunded, non-registered, non-indexed defined retirement benefit plan for an officer. The retirement benefit is two months' salary for each year the employee is employed by the Company up to age 55.

Management is required to make an estimate regarding the discount rate used to determine the accrued benefit obligation. This estimate is of a 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, 2012 was 4.19% (2011 – 4.19%).

<b>Accrued benefit obligation</b>	<b>Year Ended December 31 2012 \$</b>	Year Ended December 31 2011 \$
Unfunded balance, beginning of year	<b>187,302</b>	160,187
Current service cost	<b>21,606</b>	19,983
Interest costs on accrued benefit obligation	<b>8,311</b>	7,132
	<b>217,219</b>	187,302

<b>Elements of defined benefit costs recognized in the year</b>	<b>Year Ended December 31 2012 \$</b>	Year Ended December 31 2011 \$
Current service cost	<b>21,606</b>	19,983
Interest cost on accrued benefit obligation	<b>8,311</b>	7,132
	<b>29,917</b>	27,115

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

## 10. SHARE CAPITAL

### A. AUTHORIZED

- i. Unlimited number of Class A voting common shares. Class A common shares have no par value.
- ii. Unlimited number of Class B non-voting common shares. There are no issued Class B shares.

### B. ISSUED – CLASS A COMMON SHARES

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance at beginning of the year	60,278,948	6,315,858	54,988,039	5,770,858
Changes during the year				
Shares issued for debt	–	–	5,290,909	545,000
Balance at end of the year	60,278,948	6,315,858	60,278,948	6,315,858

During the year ended December 31, 2011, the Company issued 3,700,000 common shares totaling \$370,000 for the settlement of convertible debentures and 1,590,909 common shares totaling \$175,000 for the settlement of debt owing to the Company's directors.

These non-cash transactions have been excluded from the consolidated statement of cash flows.

### C. CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	2012 \$	2011 \$
Balance at beginning of year	397,631	347,445
Share-based payments (note 10 (d))	34,161	50,186
Balance at end of year	431,792	397,631

### D. STOCK OPTIONS AND SHARE-BASED PAYMENTS

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

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the current year, the Company granted 300,000 (2011 – 400,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock, life of the options, and forfeiture rate. The weighted average risk-free rate used in 2012 was 1.51% (2011 – 2.10%), the weighted average expected volatility was 111% (2011 – 127%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2011 – 5 years), forfeiture rate was 0% (2011-0%), the weighted average share price was \$0.08 (2011 – \$0.10), the weighted average exercise price was \$0.10 (2011 – \$0.15), and the expected dividends were nil (2011 – nil). The weighted average grant date fair value of options granted during the year were \$0.09 (2011 – \$0.11) per option. The share-based payments expense recorded during the current year relating to options granted in 2012, 2011, and 2010 was \$34,161 (during 2011 relating to options granted in 2011, 2010, 2009, and 2007 – \$50,186).

A summary of the status of the Company's stock options at December 31, 2012 and 2011 and changes during the years ended on those dates is as follows:

	2012		2011	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at beginning of year	3,170,000	0.16	3,105,000	0.16
Granted	300,000	0.10	400,000	0.15
Expired	(490,000)	0.28	(225,000)	0.28
Forfeited	(40,000)	0.10	(110,000)	0.11
Outstanding at end of year	2,940,000	0.13	3,170,000	0.16
Exercisable at end of year	2,606,667	0.13	2,713,333	0.16

Subsequent to December 31, 2012, the Company granted 1,400,000 stock options at an exercise price of \$0.10 per common share to directors and employees of the Company.

#### E. STOCK OPTIONS OUTSTANDING ARE AS FOLLOWS:

Fair Value at grant dates \$	Exercise Price \$	Year of Expiration	Weighted Average Contractual Life Remaining (years)	December 31 2012 Number of Options	December 31 2011 Number of Options
0.09	0.10	2022	9.5	300,000	–
0.11	0.15	2016	3.5	400,000	400,000
0.06	0.10	2015	2.7	530,000	570,000
0.10	0.13	2014	1.5	900,000	900,000
0.08	0.12	2013	0.7	600,000	600,000
0.15	0.25	2013	0	210,000	210,000
0.19	0.28	2012	0	–	390,000
0.22	0.30	2012	0	–	100,000
			2.5	2,940,000	3,170,000

## 11. CAAP LOAN

The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of \$1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily decommitted \$668,557 as a result of lower anticipated project expenditures resulting in amended maximum possible funding under the agreement of \$671,068. The end date for project expenditures and start date for repayments were also extended one year to September 30, 2013 and December 31, 2014 respectively. All amounts claimed under the program are repayable interest free over eight years beginning in 2014.

As the contributions are non-interest bearing, the fair value at inception is estimated as the present value of the principal payments required, discounted using the prevailing market rates of interest for a similar instrument estimated to be 15% per annum. The difference between the fair value of the contributions and the cash received is accounted for as a government grant.

## 11. CAAP LOAN (CONTINUED)

As the start date of principal repayment was changed to 2014, during the year ended December 31, 2012, the present value of the remaining cash flow was revised. The Company applied extinguishment accounting and derecognized the old loan and set up a new loan with the difference presented in the consolidated statements of net (loss) income under research and product development expenditures (consistent with the current treatment).

The balance of repayable contribution is derived as follows:

	Year Ended December 31 2012 \$	Year Ended December 31 2011 \$
Opening balance	57,432	-
Funding received or receivable	350,492	123,081
Grant revenue recognized	(188,312)	(69,990)
Extinguishment of the original liabilities	(119,772)	-
Recognition new liabilities	102,972	-
Accretion of CAAP loan	18,166	4,341
	<b>220,978</b>	57,432

Principal repayment required for amount received from inception to December 31, 2012 is \$59,197 annually from 2014 through 2021.

## 12. SALES

During the year ended December 31, 2012, the Company had export sales to two customers of the Company's products in the amount of \$4,806,152 (2011 – to five customers in the amount of \$5,753,038). The Company is therefore dependent on those customers to maintain and expand the volume of product sales to existing and new customers.

## 13. RELATED PARTY TRANSACTIONS

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

	Year Ended December 31	
	2012 \$	2011 \$
Royalties earned by employees and directors	19,482	22,109
Amounts payable to employees and directors included in royalties payable	4,632	6,318
Interest earned in convertible debentures by officers and directors	-	5,600
Key management salaries, short-term benefits, consulting fees, and director fees	656,555	484,861
Key management personnel share based payments	33,817	48,595
Director fees converted by directors to common shares	-	175,000
Conversion of principal amount of convertible debentures to common shares by officers and directors	-	70,000
Amount payable to directors	28,750	175,000

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



**14. OTHER OPERATING LOSSES (INCOME)**

Year Ended December 31	2012 \$	2011 \$
Foreign exchange losses	29,295	31,609
Other income	(5,488)	(24,271)
	<b>23,807</b>	7,338

**15. FINANCE COSTS**

Year Ended December 31	2012 \$	2011 \$
Interest on royalty financial liability	38,286	43,663
Interest on long-term loan	54,148	59,842
Interest on convertible debentures	–	40,000
Accretion of convertible debentures	–	32,500
Accretion of CAAP loan	18,166	4,341
Bank charges	2,300	462
	<b>112,900</b>	180,808

**16. INCOME TAXES****A) NON-CAPITAL LOSSES**

The Company has accumulated non-capital losses carried forward for federal income tax purposes of approximately \$13,650,200 and for provincial income tax purposes of approximately \$13,497,500, 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	2,730,300	2,730,300
2028	4,770,200	4,617,500
2029	1,697,300	1,697,300
2030	1,512,300	1,512,300
2031	763,200	763,200
2032	1,232,000	1,232,000
Total	13,650,200	13,497,500

**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 \$1,366,500, which can be carried forward indefinitely to be applied against future taxable income.

The Company has accumulated SR & ED investment tax credits of approximately \$213,000. These credits may be applied against future federal income taxes payable and expire in 2029.

**D) UNRECOGNIZED DEFERRED TAX ASSET**

A deferred 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. Components of the Company's unrecognized deferred income tax asset are as follows:

	2012 \$	2011 \$
INCOME TAX EFFECT OF DEDUCTIBLE TEMPORARY DIFFERENCES:		
Deductible temporary differences	1,001,993	1,182,626
Tax losses	4,263,362	3,955,371
Unrecognized deferred tax assets	5,265,355	5,137,997

For consolidated financial statement purposes, no deferred income tax asset has been recorded at December 31, 2012 and 2011 as it is not likely to be realized.

The Company has reflected the income tax effect of deductible temporary differences on the basis of the expected tax consequences that would follow from the manner in which the recovery or settlement of the carrying amount of assets and liabilities are expected. As a result of past asset transfers within the consolidated group, should the Company settle certain assets in a different manner the Company would have additional tax effected deductible temporary differences relating to the tax cost base of certain tax assets in the amount of \$656,159 which is not reflected above.

**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:

	2012 \$	2011 \$
Income taxes based on federal and provincial statutory income tax rate of 25% (2011 – 26.5%)	(134,589)	153,057
Tax effect of expenses that are not deductible	10,089	24,350
Tax effect of government grant revenue not taxable	–	(17,397)
Change in income tax rates	–	(9,057)
Change in investment tax credits	–	(134,320)
Other	(2,858)	22,895
Current year items where deferred tax asset not recognized	127,358	(39,528)
	–	–

## 17. SEGMENTED INFORMATION

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

Year Ended December 31	2012 \$	2011 \$
United States	3,797,565	4,150,970
Germany	1,151,132	1,293,116
Other	125,630	254,891
Canada	90,949	87,197
	<b>5,165,276</b>	5,786,174

## 18. EMPLOYEE BENEFITS

	Year Ended December 31 2012 \$	Year Ended December 31 2011 \$
Employee benefits	2,123,375	2,130,785

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

## 19. CONTINGENCIES AND COMMITMENTS

a) During the year ended December 31, 2011, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$724,500 pursuant to a product development agreement. The Company and Ceapro Veterinary Products Inc. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time, the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

b) During the year ended December 31, 2012, the Company and its wholly-owned subsidiary, Ceapro Technology Inc. were served with a statement of claim from AVAC Ltd. alleging damages of \$1,470,000 pursuant to two product development agreements. The Company and Ceapro Technology Inc. have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time, the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

c) During the year ended December 31, 2008, the Company entered into a licensing agreement with the University of Guelph for an exclusive variety of a mint plant. During the year ended December 31, 2011, the Company has entered into a new licensing agreement with the University of Guelph for additional market rights for the exclusive variety of a mint plant.

In accordance with the new agreement, there are future minimum royalty prepayments of \$10,000 per annum starting in 2012 for royalty payments which will be calculated as 5% of net sales from products derived from the mint plants. The minimum royalty payments are creditable against royalties in years where royalties are due. The agreement is an executory contract and therefore all royalty payments under the contract will be recognized as they become due.

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

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

And \$50,000 each year thereafter while the license agreement remains in force.

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

e) 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.

## 20. OPERATING LEASE

The Company paid \$346,248 in 2012 (2011 – \$348,357) under operating lease. These amounts were recorded as follows: general and administration expenses of \$96,819 (2011 – \$89,664), research and development expenses of \$14,754 (2011 – \$13,718), and cost of goods sold of \$234,675 (2011 – \$244,975).

The Company is committed to future annual payments under operating leases for manufacturing facilities and office space for twelve years starting April 1, 2013. Total lease commitments from January 1, 2013 until December 31, 2013 are \$314,284; from January 1, 2014 until December 31, 2018 are \$1,121,764, and thereafter \$1,645,240.

## 21. FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and royalties interest payable approximate their carrying amount due to their short-term nature. The fair value of long-term debt is estimated to approximate its carrying value because the interest rate does not differ significantly from current interest rates for similar types of borrowing arrangements.

The Canadian Agricultural Adaptation Program (“CAAP”) loan is recorded at the amount drawn under the agreement, discounted using the prevailing market rate of interest for a similar instrument, which represents the estimated fair value of the obligation.

The repayable research funding is recorded at the amount drawn under the agreement which represents the estimated fair value of the obligation plus the deferred interest benefit that will be recognized systematically over the term of the loan.

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of the CAAP loan and the repayable research funding are not materially different from their carrying amounts as funding received has been discounted using an estimate of a market rate of interest and is being accreted back to its nominal amount.

The royalty financial liability was estimated using a discount rate that results from the estimated future repayment of that obligation. As there has been no significant change in estimated future repayments, and as the estimated discount rate also approximates the Company's estimated cost of capital for similar borrowing arrangements, management believes the carrying amount of this obligation does not differ significantly from its fair value.

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

### A) CREDIT RISK

#### ACCOUNTS RECEIVABLE

The Company makes sales to customers that are well-established and well-financed within their respective industries. Based on previous experience the counterparties had zero default rates and management views this risk as minimal. Approximately 97% of accounts receivable are due from four customers at December 31, 2012 and all accounts receivable are current. These main customers present good credit quality and historically have a high quality credit rating.

#### CASH AND CASH EQUIVALENTS

The Company has cash and cash equivalents in the amount of \$273,106 at December 31, 2012 and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

The Company received \$750,000 under a capital expenditure grant agreement and has presented this amount as deferred revenue and considers it restricted cash as it can be spent only for qualified expenditures. During the year ended December 31, 2012, the Company has expended \$41,223 of this grant. The balance of this grant being \$708,777 is presented as deferred revenue and restricted cash and cash equivalents on the balance sheet.

There are no past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's accounts receivable, cash and cash equivalents and restricted cash and cash equivalents. The Company does not hold any collateral as security.

### B) LIQUIDITY RISK

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. Under the renewed agreement, the long-term debt matures in January 2018. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. In order to manage this liquidity risk, the Company regularly reviews its aged accounts receivable listing to ensure prompt collections. The Company regularly reviews its cash availability and whenever conditions permit, the excess cash is deposited in short-term interest bearing instruments to generate revenue while maintaining liquidity. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

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

	0 - 1 Year \$	1 - 3 Years \$	4 - 7 Years \$	8 - 12 Years \$	Total \$
Accounts payable and accrued liabilities	578,216	–	–	–	578,216
Long-term debt, including interest	200,793	600,246	216,756	–	1,017,795
Royalties interest payable	25,037	–	–	–	25,037
Royalty financial liability	129,238	118,354	–	–	247,592
Repayable CAAP funding	–	177,590	177,590	118,393	473,573
<b>Total</b>	<b>933,284</b>	<b>896,190</b>	<b>394,346</b>	<b>118,393</b>	<b>2,342,213</b>

### C) MARKET RISK

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

#### (1) FOREIGN CURRENCY RISK

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

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

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (USD)	
		– 1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
<b>Financial assets</b>			
Accounts receivable	254,623	2,546	(2,546)
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	27,436	(274)	274
<b>Total increase (decrease)</b>		<b>2,272</b>	<b>(2,272)</b>

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2012.

#### (2) INTEREST RATE RISK

The Company has minimal interest rate risk because its long-term debt is a fixed rate of 3.71%.

## 22. CAPITAL DISCLOSURES

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

## 22. CAPITAL DISCLOSURES (CONTINUED)

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 31, 2011.

## 23. GOVERNMENT ASSISTANCE

a) During the year ended December 31, 2010, the Company was approved for non-repayable funding in the amount of \$124,000 from Alberta Innovates Technology Futures (AITF). During the year ended December 31, 2012, the Company received \$32,083 (2011 – \$62,000) which was recorded as a reduction of research and product development expenses. The Company anticipates receiving an additional amount of \$9,166 in early 2013 under this agreement.

b) During the year ended December 31, 2012, the Company was approved for a second agreement for non-repayable funding in the amount of \$124,000 from AITF. During the year, the Company received \$20,750 which was recorded as a reduction of research and project development expenses. The Company anticipates receiving additional funding of \$62,000 in 2013 and \$41,250 in 2014 under this agreement.

c) The Company was approved for non-repayable funding for up to 50% of eligible costs to a maximum of \$99,900 under the Growing Forward Product Development program. The Company recognized \$nil during the year ended December 31, 2012 (2011 – \$60,076) as a reduction of research and product development expenses. This program has now been completed.

d) The Company was approved for non-repayable funding in the amount of \$50,000 for eligible costs from the Atlantic Canada Opportunities Agency. The Company recognized \$nil during the year ended December 31, 2012 (2011 – \$10,879) as a reduction of research and product development expenses. This program has now been completed.

e) The Company was approved for non-repayable funding to a maximum of \$21,250 of eligible expenditures under the Novel Crops Initiative program from the Prince Edward Island Department of Agriculture. The Company recorded the amount of \$5,000 as a reduction of research and product development expenditures under this program in the period ended December 31, 2012 (2011 – \$5,000). The Company anticipates receiving an additional amount of \$5,000 in 2013 under this program.

f) The Company received a repayable non-interest bearing contribution for research and development expenditures totaling \$100,000 by 2011 (2010 – \$50,000 of the \$100,000 was received) from Innovation PEI which was recorded as a repayable research funding liability on the consolidated balance sheet. The amount of \$15,367 was repaid during 2011. The contribution was repayable quarterly at a rate of one percent of sales revenue subject to a minimum payment of \$12,500 per quarter. The Company repaid the full liability during the year ended December 31, 2012.

g) The Company was approved for non-repayable grant funding from Innovation PEI for a maximum of \$100,000. During the year ended December 31, 2011, the Company received \$30,000 and recognized \$19,500 against eligible expenses and \$10,500 as deferred revenue. During the year ended December 31, 2012, the balance of \$70,000 potentially receivable was decommitted and the Company recognized \$10,500 as deferred revenue. No further amount is expected.

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

over eight years beginning in 2014. The Company has received funding of \$473,573 to date under this program. A maximum funding amount of \$197,495 is anticipated to be received in 2013.

i) During the year ended December 31, 2011, the Company commenced a research and development project agreement. Under this project the Company paid cash of \$56,177 in 2011 and made additional payments of \$28,236 in 2012. The other party to the research and development project agreement made an in-kind contribution to the project of \$42,262. The agreement was completed in 2012.

j) During the year ended December 31, 2011, the Company entered into a contribution agreement with Alberta Innovates Bio-Solutions (AI-Bio Solutions) for a non-repayable grant contribution totaling up to \$1,600,000 towards the construction of a new bio-processing facility and subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received \$750,000 in 2011 classified as restricted cash and cash equivalents and deferred revenue, and anticipates additional amounts will be received as follows – \$690,000 in 2013 and \$160,000 in 2014. The amount of \$41,223 was recorded as a reduction of capitalized expenditures.

k) During the year ended December 31, 2012, the Company entered into a contribution agreement with an agency of the federal government to provide funding of up to \$253,000 for certain research activities. During the year ended December 31, 2012, the Company received or recorded as receivable the amount of \$42,091. The Company estimates it will receive a further amount of \$177,659 in 2013 and \$33,250 in 2014. This contribution agreement was amended to increase the potential non-repayable contribution amount to \$345,000 from \$253,000 subsequent to December 31, 2012.

## 24. (LOSS) INCOME PER COMMON SHARE

Year Ended December 31	2012	2011
Net (loss) income for the year for basic and diluted earnings per share calculation	<b>\$(538,353)</b>	\$577,573
Weighted average number of shares outstanding	<b>60,278,948</b>	56,561,513
Potential shares to be issued for options exercisable	–	78,621
Diluted shares outstanding	<b>60,278,948</b>	56,640,134
(Loss) income per share – basic	<b>\$(0.01)</b>	\$0.01
(Loss) income per share – diluted	<b>\$(0.01)</b>	\$0.01

For the year ended December 31, 2011, of the Company's 3,170,000 options outstanding, 2,600,000 stock options have not been included in the diluted income per share calculation because the options' exercise prices were greater than the average market price of the common shares during the year.



# :: INVESTOR INFORMATION MAY 2013

## **DIRECTORS**

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

## **OFFICERS**

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

## **HEAD OFFICE**

Suite 4174 Enterprise Square  
10230 Jasper Avenue NW  
Edmonton, AB T5J 4P6  
Canada  
Telephone: 1 780.421.4555  
Fax: 1 780.421.1320  
Website: [www.ceapro.com](http://www.ceapro.com)  
Email: [bjankovic@ceapro.com](mailto:bjankovic@ceapro.com)

## **STOCK INFORMATION**

Listed on the TSX Venture Stock Exchange  
Symbol: CZO

---

## **REGISTERED OFFICE**

2600 Manulife Place  
10180 - 101 Street NW  
Edmonton, AB T5J 3V5  
Canada

## **AUDITORS**

GRANT THORNTON LLP  
1701 Scotia Place 2  
10060 Jasper Avenue NW  
Edmonton, AB T5J 3R8  
Canada

## **CORPORATE COUNSEL**

Bryan & Company  
2600 Manulife Place  
10180 - 101 Street NW  
Edmonton, AB T5J 3V5  
Canada

## **SECURITIES COUNSEL**

Bryan & Company  
2600 Manulife Place  
10180 - 101 Street NW  
Edmonton, AB T5J 3V5  
Canada

## **CHARTERED BANK**

TD Canada Trust  
148 City Centre East  
10205 - 101 Street NW  
Edmonton, AB T5J 2Y8  
Canada

## **TRANSFER AGENT & REGISTRAR**

Olympia Trust Company  
2300 Palliser Square  
125-9 Avenue SE  
Calgary, AB T6G 0P6  
Canada

## **CHANGE OF ADDRESS**

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

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

## **FINANCIAL CALENDAR**

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

## **ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS**

The annual general and special meeting of shareholders will be held on:

June 20, 2013 at 10am MDT

Location:

4<sup>th</sup> floor Enterprise Square  
10230 Jasper Avenue NW  
Edmonton, AB 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.

**Ceapro Inc.**

Suite 4174 Enterprise Square  
10230 Jasper Avenue NW  
Edmonton, Alberta, Canada T5J 4P6  
Telephone: 1 780.421.4555  
Fax: 1 780.421.1320  
[www.ceapro.com](http://www.ceapro.com)

