



Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the years ended December 31, 2008 and 2007, financial position as at December 31, 2008, and the outlook of Ceapro Inc. (Ceapro) based on information available as at April 21, 2009. The following information should be read in conjunction with the consolidated financial statements as at December 31, 2008, and related notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All comparative percentages are between the years ended December 31, 2008 and 2007 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Ceapro's future plans and operations as at April 21, 2009, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. You are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Vision, Core Business, and Strategy

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

Our products include:

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

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

- *CeaProve*[®], a diabetes test meal to screen pre-diabetes and to determine dosage levels for diabetes oral therapy, and to monitor the condition of pre-diabetics.
- A *drug delivery* platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy to skin care treatments that reduce the signs of aging; and
- An extension to *the active ingredients* product range offering, through new plant extract products.

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

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

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

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

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

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

Risks and Uncertainties

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

The Company's consolidated financial statements for the year ended December 31, 2008 have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge liabilities in the normal course of operations. Since inception, the Company has accumulated net losses, negative operating cash flow and has not yet achieved consistent profitability. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company's operations. The Company potentially faces material financial exposure if it is unable to make timely payments it has agreed to in a lawsuit settlement agreement. The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, achieving profitability, and generating positive cash flow. There can be no assurance that the Company will be able to access capital when needed, achieve profitability, or generate positive cash flow.

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

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

a) Credit risk:

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

b) Liquidity risk:

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

c) Market risk:

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

i) Foreign currency risk

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

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

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	\$426,500	\$ 4,265	\$ (4,265)
Financial liabilities			
Accounts payable and accrued liabilities	\$301,000	\$ (3,010)	\$ 3,010
Total increase (decrease)		\$ 1,255	\$ (1,255)

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

ii) Interest rate

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

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

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

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

Recently Adopted Accounting Pronouncements

Effective January 1, 2008, the Company adopted two new CICA standards, Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation" which replaced Section 3861 "Financial Instruments - Disclosure and Presentation". The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carried forward the former presentation requirements. The Company determined that the implementation of these new standards did not have any impact on the Company's financial position or results of operations. The disclosures related to these sections are reported in note 15 of the Company's consolidated financial statements for the year ended December 31, 2008.

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

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

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

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

Effective January 1, 2007, the Company prospectively adopted without restatement, the new CICA Handbook sections 3855 - Financial Instruments - Recognition and Measurement, 1530 - Comprehensive

Income, and 3865 - Hedges. These sections provide standards for the recognition, measurement, disclosure, and presentation of financial assets, financial liabilities, and derivatives. The standards prescribe when a financial instrument is to be recognized on the balance sheet and at what amount. They also specify how gains and losses on financial instruments are to be presented.

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

The Company has not participated in any hedging activities. As a result, the standards relating to hedges have had no impact on the consolidated financial statements for the years ended December 31, 2008 and December 31, 2007.

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

Future Accounting Pronouncements

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

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

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

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

Results of Operations – Years Ended December 31, 2008, 2007, and 2006

SELECTED ANNUAL INFORMATION

<i>\$000s except per share data</i>	2008	2007	2006
Total revenues	4,228	3,448	3,310
Net loss and comprehensive loss	(3,599)	(1,389)	(272)
Basic net loss per common share	(0.08)	(0.03)	(0.01)
Diluted net loss per common share	(0.08)	(0.03)	(0.01)
Total assets	3,287	4,588	2,063
Total liabilities	5,219	3,034	1,759

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

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

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

Revenue

<i>\$000s</i>	2008	2007	Change
Total revenues	4,228	3,448	23%

PRODUCT SALES

In 2008, active ingredient sales rose \$780,000 or 23% as a result of increased demand and sales of active ingredients. The increase in sales of active ingredients has also been part of Ceapro's continual sales efforts with both the large and mid-size personal care and cosmetic companies. Ceapro continually looks for new and innovative products to add to the current line.

Sales of veterinary therapeutic products in 2008 were represented by the sale of pre-mixes containing Ceapro active ingredients. Ceapro did not manufacture any bottled finished veterinary products in 2008.

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

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

<i>\$000s</i>	2008	2007	Change
Sales	4,228	3,448	
Cost of goods sold	2,641	1,794	
Gross margin	1,587	1,654	-4%
Gross margin %	38%	48%	

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

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

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

GENERAL AND ADMINISTRATION

<i>\$000s</i>	2008	2007	Change
Salaries and benefits	490	370	
Board of Directors compensation	153	143	
Investor relations	189	207	
Insurance	114	120	
Legal	145	64	
Other	598	355	
Total general and administration expenses	1,689	1,259	34%

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

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

SALES AND MARKETING

<i>\$000s</i>	2008	2007	Change
Salaries and benefits	285	308	
Other	100	111	
Total sales and marketing	385	419	-8%

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

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

ROYALTIES

<i>\$000s</i>	2008	2007	Change
Royalty interest units	448	365	
Royalty license agreements	2	-	
Less: Recognition of deferred royalty revenue	(48)	(39)	
Total royalties expenses	402	326	23%

As at December 31, 2008, royalty investors receive royalties equal to 10.59% (2007 – 10.59%) of revenues from product sales and royalty, license, and product development fees of active ingredients, veterinary therapeutic products, and CeaProve[®] to a maximum of two times the amount invested. AVAC Ltd. receives royalties of up to 5% of revenues from eligible product sales, to a maximum of one and a half times the amount invested and royalties of 2.5% of revenues of eligible product sales to a maximum of two times the amount invested. AVAC Ltd. is not currently receiving any royalties under its agreements other than repayment of fully accrued royalty liabilities previously expensed. Royalty expense in 2009 is expected to decrease as two royalties totaling 8.31% are expected to be fully accrued in the first half of 2009. During 2006 the Company commenced the recognition of deferred royalty revenue for royalty interest units issued in 2005 at a rate of one half times the amount of the royalty interest expense.

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

BIOENERGY FEASIBILITY STUDY

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

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

INTEREST

<i>\$000s</i>	2008	2007	Change
Interest on callable debt, convertible debentures, and other	-	1	
Interest on long-term debt	84	43	
Total interest expense	84	44	91%

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

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

AMORTIZATION

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

RESEARCH AND PRODUCT DEVELOPMENT

<i>\$000s</i>	2008	2007	Change
Salaries and benefits	341	136	
Product development - <i>CeaProve</i> ®	143	422	
Other	407	138	
Research and product development expenditures	891	696	28%

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

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

OTHER INCOME (EXPENSES)

<i>\$000s</i>	2008	2007	Change
Interest and other income (losses)	(13)	33	
Foreign exchange gains (losses)	86	(122)	
Total other income	73	(89)	182%

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

QUARTERLY INFORMATION

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

	2008				2007			
<i>\$000s except per share data</i>	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues	1049	871	1,456	852	776	591	1,119	962
Net (loss) income	(1415)	(488)	(1,087)	(609)	(528)	(602)	(237)	(22)
Basic (loss) income per share	(0.04)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)
Diluted (loss) income per share	(0.04)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)

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

SOURCES AND USES OF CASH

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

<i>(\$000s)</i>	2008	2007
Sources of funds:		
Funds generated from operations (cash flow)	(3,128)	(1,135)
Change in non-cash working capital items	2,069	87
Share capital issued, net of costs	-	2,569
Long term debt proceeds	-	1,612
	(1,059)	3,133
Uses of funds:		
Purchase of property and equipment and deposits	(276)	(1,602)
Deferred royalty revenue	(48)	(39)
Change in long-term debt	(114)	(473)
Purchase of license	(30)	-
Royalties payable	261	(48)
	(207)	(2,162)

Liquidity and Capital Resources

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

Agricultural Financial Services Corporation has provided a term loan of up to \$1,612,406 for plant and equipment financing. The loan was fully drawn down at December 31, 2007 and regular monthly payments began in February 2008.

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

Total common shares issued and outstanding as at April 7, 2009 and December 31, 2008 were 47,050,063 (December 31, 2007 – 47,050,063). In addition, 1,810,000 stock options (December 31, 2007 – 2,308,092)

and 4,806,608 warrants (December 31, 2007 – 4,806,608) were outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' equity of \$1,554,000 at December 31, 2007 decreased to a shareholders' deficiency of (\$1,931,000) at December 31, 2008.

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

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

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

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

Related Party Transactions

During 2008, \$57,461 of royalties were earned by employees and Directors from their investment in previous Ceapro royalty offerings, and \$11,271 was earned by former employees. At December 31, 2008, \$45,882 of royalties were payable to employees and Directors. Consulting fees of \$75,000 were paid to a company controlled by a director. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Commitments and Contingencies

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

As of December 31, 2008, all claims related to the Saskatchewan Claim have been dismissed. The Company faced a potentially material legal cost exposure as a result of dismissal of all claims. Appeal proceedings with respect to the Final Trial Judgement were commenced during the year.

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

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

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

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

2009	5,760
2010	5,760
2011	12,960
2012	20,160
2013 to 2017	208,800
	<u>\$ 253,440</u>

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

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

Outlook

Despite challenging economic conditions in the past year and the severe economic recession currently impacting the global economy, Ceapro's outlook is positive. Ceapro anticipates robust sales growth and improving financial performance based on the sound foundation of work completed to date, and on innovations current and future.

As the new production facility and technology improvements become operational and the delays of construction are an issue of the past, Ceapro expects to realize the benefits of more efficient production, greater capacity, and flexibility to expand sales and markets.

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

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

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

Additional Information

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