

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

## FORWARD-LOOKING STATEMENTS

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

## Vision, Core Business, and Strategy

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

Our products include:

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

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

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

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

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

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

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

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

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

## **Risks and Uncertainties**

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

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

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

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

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

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

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

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

## **Recently adopted accounting pronouncements**

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

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

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

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

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

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

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

## **Recent Accounting Pronouncements Issued and Not Yet Adopted**

### ***Capital Disclosures***

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

### ***Financial Instruments – Disclosures and Financial Instruments – Presentation***

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

### ***Inventories***

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

### ***Going Concern***

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

## Results of Operations – Years Ended December 31, 2007, 2006, and 2005

### SELECTED ANNUAL INFORMATION

<i>\$000s except per share data</i>	2007	2006	2005
Total revenues	3,448	3,310	2,763
Net loss and comprehensive loss	(1389)	(272)	(57)
EBITDA	(1225)	(79)	156
Basic net loss per common share	(0.03)	(0.01)	(0.00)
Diluted net loss per common share	(0.03)	(0.01)	(0.00)
Total assets	4,588	2,063	2,419
Total liabilities	3,034	1,759	1,958

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

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

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

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

### Revenue

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

### PRODUCT SALES

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

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

## Expenses

### COST OF GOODS SOLD AND GROSS MARGINS

<i>\$000s</i>	<b>2007</b>	2006	Change
Sales	<b>3,448</b>	3,310	
Cost of products sold	<b>1,794</b>	1,414	
Gross margin	<b>1,654</b>	1,896	-13%
Gross margin %	<b>48%</b>	57%	

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

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

### GENERAL AND ADMINISTRATION

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

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

### SALES AND MARKETING

<i>\$000s</i>	<b>2007</b>	2006	Change
Salaries and benefits	<b>308</b>	216	
Other	<b>111</b>	126	
Total sales and marketing	<b>419</b>	342	23%

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

## ROYALTIES

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

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

## BIOENERGY FEASIBILITY STUDY

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

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

## INTEREST

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

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

## AMORTIZATION

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

## RESEARCH AND PRODUCT DEVELOPMENT

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

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

## OTHER (LOSS) INCOME

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

Other income was lower in 2007 due to foreign exchange losses of \$122,000 offset by interest income on surplus cash balances of \$33,000. The United States dollar weakened steadily against Canadian dollar in 2007 resulting in foreign currency losses. Stronger United States dollar exchange rates versus Canadian dollars at year end resulted in recognized foreign currency gains in the amount of \$33,000 in 2006.

## QUARTERLY INFORMATION

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

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

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

## SOURCES AND USES OF CASH

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

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

## Liquidity and Capital Resources

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

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

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

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

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

To meet future requirements, Ceapro may raise additional cash through some or all of the following methods: public or private equity or debt financing, income offerings, capital leases, collaborative and licensing agreements, and joint venture or partnership financings. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all. The ability to generate new cash will depend on external factors, many beyond the Company's control, as outlined in the

Risks and Uncertainties section. Should sufficient capital not be raised, Ceapro may have to delay, reduce the scope of, eliminate, or divest one or more of its discovery, research, or development technology or programs, any of which could impair the value of the business.

## **Related Party Transactions**

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

## **Legal Proceedings**

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

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

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

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

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

## **Outlook**

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

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

CeaProve® can now be manufactured on a commercial scale, allowing Ceapro to initiate a Canadian marketing campaign. The first result of the campaign has been an agreement with Gamma Dynacare Medical Laboratories to work together in the development of the prediabetes and diabetes screening market.

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

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

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

## **Additional Information**

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