Management's Discussion & Analysis

2009

The MD&A provides commentary on the results of operations for the years ended December 31, 2009 and 2008, the financial position as at December 31, 2009 and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 14, 2010. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2009, and related notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All comparative percentages are between the years ended December 31, 2009 and 2008 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Ceapro's future plans and operations as at April 14, 2010, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. You are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Vision, Core Business, and Strategy

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

Our products include:

- A commercial line of natural and organic active ingredients, including *beta glucan, avenanthramides (colloidal oat extract*), *oat powder, oat oil*, *oat peptides* and *lupin peptides* which are marketed to the personal care, cosmetic, and nutraceutical industries through our distribution partners and direct sales; and

- Veterinary therapeutic products, including an *oat shampoo*, an *ear cleanser,* and a *dermal complex/conditioner*, which are manufactured and marketed to veterinarians in Japan and Asia, through agreements with Daisen Sangyo Co. Ltd.

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

- *CeaProve*®, a diabetes test meal to screen pre-diabetes and to determine dosage levels for diabetes oral therapy, and to monitor the condition of pre-diabetics.

- *A drug delivery* platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging; and

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

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

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

- Developing and expanding partnerships and strategic alliances to expand our business
- Enhancing the health of humans and animals;
- Discovering, extracting, and commercializing new, natural ingredients;
- Producing the highest quality work possible in products, science, and business; and
- Developing personnel through guidance, opportunities, and encouragement.

To support these objectives, we believe we have strong intellectual and human capital resources and we are developing a strong base of partnerships and strategic alliances to exploit our technology. The current economic environment provides challenges in obtaining financial resources to fully exploit opportunities. To fund our operations, Ceapro relies upon revenues primarily generated from the sale of active ingredients, and the proceeds of public and private offerings of equity securities, debentures, grants, and other income offerings.

Risks and Uncertainties

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

The Company's consolidated financial statements for the year ended December 31, 2009 have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge liabilities in the normal course of operations. Since inception, the Company has accumulated net losses, negative operating cash flow and has not yet achieved consistent profitability. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, grants and other income offerings to support the Company's operations. The Company's ability to continue as a going concern is 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.

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

b) Liquidity risk:
Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The long-term debt matures in January 2013. It is the intention of the company that refinancing will be negotiated at that time should it be required. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. Royalties are in arrears as they have not been paid since the second quarter of 2008 due to the limited financial resources of the Company. In order to manage this liquidity risk, the Company regular reviews its aged receivable listing to ensure prompt collections. The Company regularly reviews its cash availability and whenever conditions permit, the excess cash is deposited in short-tem interest bearing instruments to generate revenue while maintaining liquidity. The company relies on cash flow from operations, debt and equity financings and government funding to fund its operations. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

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

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

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

i) Foreign currency risk

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

The Company is exposed to foreign currency fluctuations because a substantial portion of sales are denominated in U.S. dollars. A one percent change in the Canadian/U.S. dollar exchange rate will impact revenues by approximately $37,380 annually based upon 2009 U.S. dollar sales of $3,738,000. The Company does purchase some materials and services in U.S. dollars and to a lesser extent in Euros. This amount will vary by product sold.

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	$129,511	$ 1,295	$ (1,295)
Financial liabilities			
Accounts payable and accrued liabilities	$219,134	$ (2,191)	$ 2,191
Total increase (decrease)		$ (896)	$ 896

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

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

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

A variety of factors will affect Ceapro's future growth and operating results, including the strength and demand for the Company's products, the extent of competition in 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, the discount rate used in determining the employee future benefits obligation, and the interest rate used to value convertible debentures. These estimates are based on historical experience and reflect certain assumptions about the future that we believe to be both reasonable and conservative. Actual results could differ from those estimates. Ceapro continually evaluates the estimates and assumptions.

Recently Adopted Accounting Pronouncements

Effective January 1, 2009 the company adopted the new Handbook Section 3064 "Goodwill and Intangible Assets", which replaced Handbook Section 3062 "Goodwill and Other Intangible Assets" and Handbook Section 3450 "Research and Development Costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Handbook Section 3062. The Company has determined that the adoption of this new section did not have a material impact on these consolidated financial statements.

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

Future Accounting Pronouncements

IFRS

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in GAAP, as used by public entities, being converged with International Financial Reporting Standards ("IFRS") over a transitional period. In February 2008, the AcSB confirmed January 1, 2011 as the date that Canadian public entities will be required to start reporting under IFRS. Companies 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 the year, the Company began preparing its IFRS conversion plan. This plan is aimed at identifying the differences between IFRS and the Company's current accounting policies, assessing the impact on the Company's financial reporting, and analyzing alternative policies that could be adopted.

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

Consolidated Financial Statements

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

Business Combinations

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

Results of Operations – Years Ended December 31, 2009, 2008, and 2007

SELECTED ANNUAL INFORMATION

$000s except per share data	**2009**	2008	2007
Total revenues	**4,370**	4,228	3,448
Net loss and comprehensive loss	**(69)**	(3,599)	(1,389)
Basic net loss per common share	**(0.00)**	(0.08)	(0.03)
Diluted net loss per common share	**(0.00)**	(0.08)	(0.03)
Total assets	**2,771**	3,287	4,588
Total long-term financial liabilities	**2,025**	1,770	2,182

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

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

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

Revenue

$000s	**2009**	2008	Change
Total revenues	**4,370**	4,228	3%

PRODUCT SALES

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

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

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

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

$000s	**2009**	2008	Change
Sales	**4,370**	4,228	
Cost of goods sold	**2,252**	2,943	
Gross margin	**2,118**	1,285	65%
Gross margin %	**48%**	30%	

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

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

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

GENERAL AND ADMINISTRATION

$000s	**2009**	2008	Change
Salaries and benefits	**386**	490	
Board of Directors compensation	**190**	153	
Investor relations	**113**	189	
Insurance	**114**	114	
Legal	**80**	145	
Other	**541**	598	
Total general and administration expenses	**1,424**	1,689	-16%

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

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

SALES AND MARKETING

$000s	**2009**	2008	Change
Salaries and benefits	**83**	285	
Other	**101**	100	
Total sales and marketing	**184**	385	52%

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

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

ROYALTIES

$000s	**2009**	2008	Change
Royalty interest units	**301**	448	
Royalty license agreements		2	
Less: Recognition of deferred royalty revenue	**(50)**	(48)	
Total royalties expenses	251	402	-38%

As at December 31, 2009, royalty investors receive royalties equal to 2.29% (2008 – 10.59%) of revenues from product sales and royalty, license, and product development fees of active ingredients, veterinary therapeutic products, and CeaProve® to a maximum of two times the amount invested. AVAC Ltd. receives royalties of up to 5% of revenues from eligible product sales, to a maximum of one and a half times the amount invested and royalties of 2.5% of revenues of eligible product sales to a maximum of two times the amount invested. AVAC Ltd. is not currently receiving any royalties under its agreements. Royalty expense in 2009 decreased as two royalties totaling 8.31% were fully accrued in the first nine months of 2009. The Company recognizes deferred royalty revenue for royalty interest units issued in 2005 at a rate of one half times the amount of the royalty interest expense. As at December 31, 2009 royalties payable to royalty investors and AVAC Ltd. were $758,436. Detailed royalty disclosure is provided in note 7 of the consolidated financial statements.

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

BIOENERGY FEASIBILITY STUDY

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

INTEREST & AMORTIZATION

$000s	**2009**	2008	Change
Interest on long-term debt	**77**	84	
Total interest expense	**77**	84	-8%
Amortization	**45**	35	29%

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

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

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

RESEARCH AND PRODUCT DEVELOPMENT

$000s	**2009**	2008	Change
Salaries and benefits	**400**	341	
Product development - *CeaProve®*	**75**	143	
Other	**102**	407	
Research and product development expenditures	**577**	891	-35%

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

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

OTHER INCOME (EXPENSES)

$000s	**2009**	2008	Change
Interest and other income (loss)	**13**	(13)	
Foreign exchange gains (loss)	**(68)**	86	
Total other income (expenses)	**(55)**	73	-175%

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

QUARTERLY INFORMATION

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

	2009				2008			
$000s except per share data	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total revenues	**395**	**1,261**	**1,212**	**1,502**	1049	871	1,456	852
Net (loss) income	**(634)**	**(4)**	**466**	**103**	(1415)	(488)	1,087	(609)
Basic (loss) income per share	**(0.01)**	**(0.00)**	**0.01**	**0.00**	(0.04)	(0.01)	(0.02)	(0.01)
Diluted (loss) income per share	**(0.01)**	**(0.00)**	**0.01**	**0.00**	(0.04)	(0.01)	(0.02)	(0.01)

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

SOURCES AND USES OF CASH

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

($000s)	**2009**	2008
Sources of funds:		
Funds generated from operations (cash flow)	**175**	(3,176)
Change in non-cash working capital items	**(1,144)**	2,069
Share capital issued, net of costs	**463**	-
Convertible debenture proceeds	**500**	-
	(6)	(1,107)
Uses of funds:		
Purchase of property and equipment and deposits	**(52)**	(276)
Change in long-term debt	**(132)**	(114)
Purchase of license	**-**	(30)
Royalties payable	**289**	261
	105	(159)
Net change in cash	**99**	**(1,266)**

Liquidity and Capital Resources

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

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

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

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

Related Party Transactions

During 2009, $38,699 of royalties were earned by employees and Directors from their investment in previous Ceapro royalty offerings. At December 31, 2009, $84,581 of royalties were payable to employees and directors. Consulting fees of $150,000 were earned by a company controlled by a director. Employees and directors purchased $45,000 of convertible debentures during the year. At December 31, 2009 consulting fees of $37,500 were payable to a company controlled by a director. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Commitments and Contingencies

(a) Ceapro Inc. commenced litigation against a number of defendants in 2002 in the Court of Queen's Bench of Saskatchewan (the "Saskatchewan Claim"). The defendants against whom the case proceeded to trial were the Government of Saskatchewan, Saskatchewan Government Growth Fund Ltd. (SGGF),

Saskatchewan Government Growth Fund Management Corporation (SGGFMC), Gary K. Benson, Janice MacKinnon, and Can-Oat Milling Products Inc. The Saskatchewan Claim raises numerous causes of action against certain of the defendants including a claim against all based in civil conspiracy. Ceapro claimed damages in excess of $19 million for loss of its investment in Canamino Inc., plus additional damages for loss of goodwill and other losses and for other relief.

During the year ended December 31, 2008, all claims related to the Saskatchewan Claim were dismissed. During the year ended December 31, 2009 the Company and defendants reached an agreement with respect to the settlement of the appeal proceedings and the legal costs payable to the defendants. The Company agreed to consent to the dismissal of all appeal proceedings and to pay to the defendants $705,000 in legal costs which were payable in four equal quarterly installments of $176,250 commencing March 31, 2009. The settlement agreement was fully satisfied by the Company in 2009 there is no further financial exposure to the Company.

During the year ended December 31, 2008 the Company recorded a provision for disputed legal fees in the amount of $741,283. In 2009 the Company recorded a recovery of $426,300 of the previously disputed legal fees as one legal firm advised the Company that it would not be pursuing their claim. The remaining disputed balance of $314,983 is recorded as a liability on the balance sheet as SGGF legal fees.
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The Company was required to post a bond with the court in the amount of $305,000 in connection with the litigation. The bond was released upon satisfaction of the judgment by the Company.

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

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

For 2009 the Company recognized a minimum payment of $5,760 (2008 - $2,400) in royalty expense.

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

Outlook

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

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

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

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

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

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

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

Ceapro intends to implement its operating plans in a measured and responsible manner. Additional working capital is required to support the expected increases in the volume of sales of existing products, the introduction of new products to existing and new markets, and the further development of new technology.

Additional Information

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