Management's Discussion & Analysis
2010

CEAPRO
Nature Enhancing Life®

The MD&A provides commentary on the results of operations for the years ended December 31, 2010 and 2009, the financial position as at December 31, 2010 and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 18, 2011. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2010, 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, 2010 and 2009 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 18, 2011, 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. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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 (P.E.I.) Inc. is a wholly owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Ceapro is a growth stage biotechnology Company. Our primary business activities relate to the development and commercialization of natural products for personal care, cosmetic, medical and animal health industries using proprietary technology and natural, renewable resources.

Our products include:

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

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

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

- *CeaProve*®, 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;

- An extension t*o the active ingredients* product range offering, through new plant extract products;

- A variety of novel manufacturing technologies.

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 our current active ingredients;
- Developing and marketing additional high-value proprietary therapeutic products;
- Developing and improving manufacturing technologies to ensure strong financial performance;
- Advancing new partnerships and strategic alliances to develop new commercial active ingredients and manufacturing technologies;

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

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

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

Risks and Uncertainties

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

The Company's consolidated financial statements for the year ended December 31, 2010 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, generated inconsistent operating cash flow and has not yet achieved consistent profitability. During the current year the Company demonstrated that it has reached the critical mass to operate profitably and generate funds to carry out its business vision. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company's operations. The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, maintaining profitability, and generating positive cash flow. While there can be no assurance that the Company will be able to access capital when needed, achieve consistent profitability, or generate sufficient cash flow, the Company believes it has accomplished these goals in 2010 as evidenced by improvements in working capital and shareholder's deficiency.

The consolidated financial statements as at December 31, 2010 do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, and revenues and expenses, and the balance sheet classification used if the Company were unable to continue operations. Such adjustments could be material.

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 81% of accounts receivable are due from three customers at December 31, 2010 and all accounts receivable are current. The Company mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with a Canadian Chartered Bank. The Company's maximum exposure to credit risk on its cash and accounts receivable is the carrying value of these items at December 31, 2010**,** a total of $757,052.

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 only been paid partially in cash since the second quarter of 2008 due to the limited financial resources of the Company. In order to manage this liquidity risk, the Company regularly reviews its aged accounts receivable listing to ensure prompt collections. The Company regularly reviews its cash availability and whenever conditions permit; the excess cash is deposited in short-tem interest bearing instruments to generate revenue while maintaining liquidity. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

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	862,163			862,163
Long term debt, including interest	208,613	1,135,148		1,343,761
Royalties payable	378,051			378,051
Convertible debentures including interest	540,000			540,000
Employee future benefit obligation			184,037	184,037
Repayable research funding	12,500	37,500		50,000
Total	**2,001,327**	**1,172,648**	**184,037**	**3,358,012**

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 $54,500 annually based upon 2010 U.S. dollar sales of $5,450,000. The Company does purchase some materials and services in U.S. dollars and to a very minor 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	535,729	5,357	(5,357)
Financial Liabilities			
Accounts payable and accrued liabilities	46,159	(462)	462
Total increase (decrease)		4,895	(4,895)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2010.

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 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.

d) People and Process risk:

i) Loss of key personnel

Ceapro relies on certain key employees whose skills and knowledge are critical to maintaining the Company’s success. Ceapro has procedures in place to identify and retain key employees and always attempts to be competitive with compensation and working conditions.

ii) Interruption of raw material supply:

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

iii) Environmental issues:

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

iv) Regulatory compliance:

As a natural extract producer, Ceapro is subject to various regulations and violation of these could limit markets into which we can sell. Ceapro has introduced a range of procedures which will ensure that Ceapro is well prepared for new regulations, and requirements that may be required.

Future Accounting Pronouncements

IFRS

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that would result in International Financial Reporting Standards ("IFRS") replacing Canadian GAAP for Publicly accountable entities. In February 2008, the AcSB confirmed January 1, 2011 as the date that Canadian public entities will be required to start reporting under IFRS. Comparative financial information for 2010 will be required when companies begin reporting 2011 results under IFRS.

The Company will apply accounting policies consistent with IFRS beginning with its interim financial statements for the quarter ended March 31, 2011. Interim and annual financial statements will include comparative 2010 financial statements, adjusted to comply with IFRS.

The adoption of IFRS will result in some changes to the Company’s significant accounting policies that are applied in the recognition, measurement and disclosure of balances and transactions in its financial statements.

The Company has not yet determined the full effect of adopting IFRS on its financial statements and is still considering additional exemptions available. Included below are highlights of the areas that are expected to result in a change to the Company’s reported amounts under Canadian GAAP.

The Company has made a detailed evaluation of accounting policies and assessment of IFRS1 *First-time Adoption of International Financial Reporting Standards* and determined choices under this standard. The Company has chosen the following optional exemptions under this standard:

i) Employee benefit

The Company intends to disclose the amounts required under IAS 19 Employee Benefits as the amounts are determined for each accounting period prospectively from the transition date;

ii) Share-based payments

The Company has elected not to apply IFRS 2 Share-based payments to equity instruments granted after November 7, 2002 that had vested by the transition date.

The accounting policies the Company expects to apply and the estimated possible impact on financial statements under the following IFRS standards are detailed below:

IFRS 2 *Share-based payments*
The Company will be required to estimate forfeitures on issuance rather than being recorded when incurred under Canadian GAAP. This is not expected to have a material impact on the Company's financial statements.

IAS 16 *Property and Equipment*
The Company will adopt the cost model for property and equipment for measurement after initial recognition. This is expected to have no impact on the Company's financial statements.

IAS 39 *Financial Instruments Recognition and Measurement*
The Company is required to adopt this standard. The Company is currently assessing the impact of this standard.

IAS 37 *Provisions, Contingent Liabilities, and Contingent Assets*
The Company will be adopting this standard and is currently assessing the impact this standard will have on provisions recognized for its royalty obligations.

IAS 12 *Income taxes*
The Company will recognize a deferred tax liability for the equity component of convertible debentures offset by a deferred tax asset on previously unrecognized tax assets of the same amount. This is expected to have no material impact on the Company's financial statements.

In general, the Company believes it is on schedule to make the changes required for IFRS reporting in 2011. The adoption of IFRS is not expected to impact other daily business activities.

Results of Operations – Years Ended December 31, 2010, 2009, and 2008

CONSOLIDATED INCOME STATEMENT

$000s except per share data	2010	%	2009	%	2008	%
Total revenues	**5,577**	**100%**	**4,370**	**100%**	**4,228**	**100%**
Cost of goods sold	(3,042)	55%	(2,252)	52%	(2,942)	70%
Gross margin	**2,535**	**45%**	**2,118**	**48%**	**1,286**	**30%**
General and administration expenses	(1,237)	22%	(1,424)	33%	(1,689)	40%
Royalties	(60)	1%	(251)	6%	(402)	10%
Selling and marketing	(70)	1%	(184)	4%	(385)	9%
Amortization	(37)	1%	(45)	1%	(35)	1%
Interest and accretion expenses	(138)	2%	(77)	2%	(84)	2%
Income (loss) from operations	**993**	**18%**	**137**	**3%**	**(1,309)**	**-31%**
Research and development expenses	(765)	14%	(578)	13%	(897)	21%
Write off of property and equipment	(12)	0%	-	0%	-	0%
Other income (loss)	(30)	1%	(55)	1%	73	2%
Income (loss) before SGGF legal fees recovery (expense) and income tax	**186**	**3%**	**(496)**	**-11%**	**(2,133)**	**-50%**
SGGF legal fee recovery (expense)	315	6%	426	10%	(1,466)	35%
Income before tax	**501**	**9%**	**(69)**	**-2%**	**(3,599)**	**-85%**
Income tax	-		-		-	
Net income	**501**	**9%**	**(69)**	**-2%**	**(3,599)**	**-85%**
Basic net income (loss) per common share	0.01		(0.00)		(0.08)	
Diluted net income (loss) per common share	0.01		(0.00)		(0.08)	
Total assets	2,820		2,771		3,287	
Total long-term financial liabilities	1,445		2,025		1,770	

Revenue. The Company's revenue has increased by 28%, to $5,577,000 from $4,370,000 in 2010.

Cost of Goods Sold. Cost of Goods Sold increased by 35% to $3,042,000 from $2,252,000.

Gross margin. Gross margin increased by $417,000 or 20% to $2,535,000 from $2,118,000.

The sales of active ingredients to the personal care industry increased by $1,513,000 due to higher sales volumes for most products offset partially by a strengthening Canadian dollar versus the US dollar. There has been a decrease $306,000 in sales to the animal health industry segment in comparison to 2009.

Income from operations was $993,000 compared to $137,000 in 2009 largely due to higher product sales and lower operating expenses and royalties. Research and development costs increased $187,000 due primarily to expenditures undertaken as a result of new research projects.

There was a decrease in general and administration expenses of $187,000 and lower sales and marketing costs in the amount of $114,000.

Net income in 2010 of $501,000 includes the reversal of a legal fee accrual in the amount of $315,000 previously recorded in 2008. There was net loss of ($69,000) in 2009 including the reversal of $426,000 in disputed legal fees accrued in 2008.

The fourth quarter revenues of $1,696,000 represent a sharp increase of $1,301,000 from 2009 fourth quarter revenues of $395,000. Income from operations in the fourth quarter was $488,000 compared with loss ($443,000) in 2009 as well as the net income for the fourth quarter was $198,000 in comparison with net loss in the fourth quarter of 2009 ($634,000) as a result of higher sales. There was a decrease in general and administration expenses of $17,000; decrease in sales and marketing of $52,000 and increase in research and development costs of $65,000 during the fourth quarter. There was a fourth quarter foreign exchange loss of $24,000 and other expenses $2,000 in the current year while in the same period in 2009 there was a foreign exchange loss of $4,000, and other expenses of $1,000.

Revenue

$000s	**2010**	**2009**	**Change**
Total revenues	5,577	4,370	28%

PRODUCT SALES

In 2010, total sales rose $1,207,000 or 28% as a result of increased sales of active ingredients in the personal care industry of $1,513,000, offset partially by decreased sales to the animal health industry segment of $306,000. The timing of animal health orders varies by quarter. Total sales were negatively impacted by a stronger Canadian dollar versus the U.S. dollar.

Sales in the fourth quarter 2010 increased sharply to $1,696,000 as a result of strong demand from the personal care sector for Ceapro active ingredients as well as a sale to the animal health sector. This represents the highest fourth quarter revenue in the history of the Company

Sales of veterinary therapeutic products in 2010 and 2009 were represented by the sale of pre-mixes containing Ceapro active ingredients. Sales in the fourth quarter were $160,000 versus nil in 2009.

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

$000s	**2010**	**2009**	**Change**
Sales	5,577	4,370	
Cost of goods sold	3,042	2,252	
Gross margin	2,535	2,118	**20%**
Gross margin %	**45%**	**48%**	

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

For 2010, the gross margin increased by 20% in dollar terms but the percentage decreased to 45% from 48%, primarily due to the strengthening of the Canadian dollar versus US dollar that negatively impacted sales, the write off of $99,000 of oat oil, and general increases for plant costs.

The fourth quarter gross margin of $861,000 and gross margin percentage of 51% in 2010 increased significantly from negative gross margin ($10,000) in 2009 due to higher sales volumes and resulting higher economies of scale of manufacturing fixed costs.

GENERAL AND ADMINISTRATION

$000s	**2010**	**2009**	**Change**
Salaries and benefits	349	386	
Consulting	188	181	
Board of Directors compensation	176	190	
Investor relations	44	113	
Insurance	114	114	
Accounting and audit fees	90	75	
Legal	54	80	
Rent	87	67	
Other	135	218	
Total general and administration expenses	1,237	1,424	-13%

General and administration expense for 2010 decreased by $187,000 or 13%. Salaries decreased as a result of lower staff levels during the year. Directors' compensation decreased due to lower stock based compensation expenses. Accounting and audit fees increased during the year for the IFRS conversion project. Investor relations decreased as the Company has not engaged investor relations consultants in 2010 as they did in 2009. 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 $17,000 from 2009 for the same reasons that full year expenses decreased.

SALES AND MARKETING

$000s	**2010**	**2009**	**Change**
Salaries and benefits	-	83	
Courses & Conferences	5	26	
Travel	30	29	
Other	35	46	
Total sales and marketing	70	184	-62%

Sales and marketing expenses in 2010 declined by 62% largely due to staff reductions for marketing activities. There was decrease in conference expenses associated with market expansion and production of corporate promotional material in 2010.

The fourth quarter of 2010 showed a reduction in expenditures of 72% versus 2009 for the same reasons discussed for the whole year.

Sales and marketing expenses decreased in the fourth quarter of 2010 by $52,000 versus 2009 as the Company made a decision to evaluate different marketing strategies in 2009 and therefore incurred significantly less cost in 2010 when it did not incur these costs. Most of these efforts in 2010 involved attending tradeshows focused on opportunities to target personal care companies with specific needs and subsequent follow up visits with these companies.

The Company is currently reviewing new marketing initiatives for 2011.

ROYALTIES

$000s	2010	2009	Change
Royalty interest units	114	301	-62%
Less: recognition of deferred royalty revenue	(54)	(50)	
Total royalty expenses	60	251	-76%

As at December 31, 2010, royalty investors received royalties equal to 2.285% (2009 – 2.285%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products and *CeaProve*®, to a maximum of two times the amount invested. AVAC Ltd. receives royalties of up to 2.5% to 5% of revenues from eligible product sales, to a maximum of one and a half to twice the amount invested. Royalty expense will vary directly with fluctuations in eligible product sales, royalty, license and product development fees, product sales mix, and any new royalty interest offerings that may be completed. Royalty expense decreased as two royalties totaling 8.31% were fully accrued in 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. Detailed royalty disclosure is provided in note 7 of the consolidated financial statements.

During 2010 the Company settled royalty obligations in the amount of $270,560 through the issuance of 3,006,224 common shares of Ceapro Inc. During the fourth quarter, the Company further repaid a total of $218,000 with cash toward the royalty obligation leaving an obligation of $378,000 at December 31, 2010.

Royalty expense in the fourth quarter was $21,000, an increase from $16,000 in the fourth quarter of 2009 as a result of higher eligible product sales.

INTEREST & AMORTIZATION EXPENSES

$000s	2010	2009	Change
Interest on long term debt	70	77	
Interest on convertible debentures	41	-	
Accretion on convertible debentures	27	-	
Total interest expenses	138	77	79%
Amortization	37	45	-17%

Interest on long-term debt declined $7,000 as a result of a lower principal balance of long-term debt from the previous year. Interest expense on long-term debt decreased $2,000 in the fourth quarter of 2010 from 2009 for the same reasons.

On December 31, 2009, the Company issued secured convertible debentures for cash of $500,000. The debentures bear interest at 8% per annum, mature on December 31, 2011, and are convertible at any time at a price of $0.10 per common share at the option of the holder. The debentures may be redeemed at the option of the Company upon giving notice of 60 days. In 2010 Company recorded interest expense on convertible debentures in the amount of $41,000 and accretion of $27,000.

For the year ended December 31, 2010 the total amortization of $291,000 (2009 - $357,000) was allocated as follows: $37,000 (2009 - $45,000) to amortization expense, $4,000 to inventory (2009 - $23,000), and $250,000 (2009 - $289,000) to cost of goods sold.

Other Income (Expenses)

RESEARCH AND PRODUCT DEVELOPMENT

$000s	**2010**	**2009**	**Change**
Salaries and benefits	371	400	
Regulatory and patents	128	115	
Other	160	(13)	
	659	502	31%
Product development - Ceaprove®	106	75	42%
Total research and product development expenditures	765	577	33%

Research and product development expenses in 2010 increased by 31% from 2009 expenses as a result of new research and development projects commenced in 2010 and higher costs for patents. There was an increase of 42% in costs for Ceaprove® related to contract manufacturing of the product. As a result, total research and product development expenditures increased by 33%, mainly to support the commercialization of new products.

For the fourth quarter research and development expenses increased 49% while total research and development, including Ceaprove®, increased $65,000 or 35% for the same reasons discussed for the year.

OTHER INCOME (EXPENSES)

$000s	**2010**	**2009**	**Change**
Interest and miscellaneous income (loss)	(2)	13	
Foreign exchanges gain (loss)	(28)	(68)	
Total othere income (expenses)	(30)	(55)	-46%

Other income in 2010 is comprised primarily of $28,000 of foreign exchange loss and $2,000 of miscellaneous expenses compared to foreign exchange loss of $68,000 in 2009 mostly due to the strengthening of the Canadian dollar versus the US dollar offset by $13,000 in other income. The foreign exchange loss in the fourth quarter of 2010 was $24,000 and other expenses were $2,000 compared to a foreign exchange loss of $4,000 and other expenses of $1,000 in 2009.

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.

	2010				**2009**			
$000s except per share data	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Total revenues	1,696	1,708	1,018	1,155	395	1,261	1,212	1,502
Net income (loss)	198	115	237	(49)	(634)	(4)	466	103
Basic net income (loss) per common share	0.004	0.002	0.005	(0.001)	(0.012)	(0.000)	0.010	0.002
Diluted net income (loss) per common share	0.004	0.002	0.005	(0.001)	(0.012)	(0.000)	0.010	0.002

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

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EMPLOYED

$000s	**2010**	**2009**
Non-current assets	1,713	1,925
Current assets	1,107	846
Current liabilities	(1,927)	(2,119)
Total assets less current liabilities	**893**	**652**
Non-current liabilities	1,445	2,025
Shareholders' equity	(552)	(1,373)
Total capital employed	**893**	**652**

Non-current assets decreased $212,000 due to a write-off of property and equipment in the amount of $12,000 and an amortization provision of $291,000 offset by the acquisition of $91,000 of property and equipment.

Trade and other receivables including deposits and prepaid expenses were higher than 2009 by $427,000 and cash increased over 2009 by $71,000. Inventories were lower by $237,000.

Convertible debentures in the amount of $468,000 were reclassified in 2010 from non-current to current liabilities as the debentures mature on December 31, 2011. It was presented under non-current liabilities in the amount of $440,000 in 2009.

Excluding the reclassification of convertible debentures described above, current liabilities totaling $1,927,000 decreased by the net amount of $660,000 ((1,927 – 468) – 2,559). This was due to a increase in trade payables and accrued liabilities of $15,000, a reversal of an accrual in the amount of $315,000 created in 2008 for legal fees, and a net royalty payable reduction of $380,000 due to repayments of $489,000 through cash $218,000 and shares $271,000 offset by new accrued portion of $108,000. Current portion of long-term debt was increased by $8,000 and current portion of repayable research funding was recognized in 2010 in the amount of $12,000

Excluding the reclassification of convertible debentures described above, non-current liabilities totaling $1,445,000 decreased by the net amount of $139,000 due to principal repayment of financial liabilities in the amount of $147,000 and recognition of deferred royalty revenue in the amount of 54,000 offset by AN additional accrued employee future benefit obligation of $23,000 and the non-current portion of repayable research funding recognized in 2010 in the amount of $38,000

Shareholders’ deficiency of $552,000 at December 31, 2010 improved from a shareholders’ deficiency of $1,373,000 at December 31, 2009 due to increases in share capital of $292,000 from the conversion of debt, the recognition of stock based compensation in contributed surplus of $28,000 and net income of $501,000.

NET DEBT

$000s	2010	2009
Cash and cash equivalents	187	116
Current financial liabilities*	1,004	897
Non-current financial liabilities*	1,119	1,667
Total financial liabilities	2,123	2,564
NET DEBT	**1,936**	**2,448**

**Includes long-term debt, current portion of long term debt, convertible debentures, repayable research funding, current portion of repayable research funding, and current portion of royalties payable.*

The Company's net debt decreased by $512,000 or 21% due to a long-term debt repayment in the amount of $139,000 and cash increasing by $71,000 partially offset by convertible debentures accretion in the amount of $28,000 and receiving repayable research funding of $50,000. Royalties were repaid by a total of $488,000 while new royalty obligations of $108,000 were accrued.

SOURCES AND USES OF CASH

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

$000s	2010	2009
Sources of funds:		
Funds generated from operations (cash flow)*	829	176
Changes in non-cash working capital items*	(468)	(1,145)
Share capital issued, net of costs	-	463
Repayable research funding	50	-
Convertible debentures proceeds	-	500
	411	(6)
Uses of funds:		
Purchase of property and equipment	(91)	(52)
Change in long term debt	(139)	(132)
Royalties paid	(218)	-
Increase in royalties payable	108	289
	(340)	105
Net change in cash	71	99

**Cash flows provided by operating activities comprise the cash generated by operating activities less changes in working capital requirements.*

The increase in 2010 in cash flows provided by operating activities resulted from a significant increase in cash generated by operating activities of $1,330,000 which was due to a sharp increase in operating income of $855,000 and from non-cash working capital item improvements primarily due to SGGF legal fees being written off.

FREE CASH FLOW*

$000s	2010	2009
Cash flows provided by operating activities	361	(969)
Purchase of property and equipment and deposits	(91)	(52)
Free Cash Flow	**270**	**(1,021)**

**Free cash flow (available cash) represents cash flow from operating activities less capital expenditures net of proceeds from disposal. Free cash flow (FCF) represents the cash that a Company is able to generate after laying out the money required to maintain or expand its asset base. Free cash flow is important because it allows a Company to repay debt obligations and pursue opportunities that enhance shareholder value.*

Free cash flow significantly improved in 2010 by $1,291,000 mostly due to improved cash flow from operating activities - $1,330,000 partially offset by increased spending in 2010 on property and equipment in the amount of $39,000.

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

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

Total common shares issued and outstanding as at April 18, 2011 were 56,578,948 (April 14, 2010 – 51,710,063). In addition, 3,105,000 stock options as at April 18, 2011 (April 14, 2010 – 2,485,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Ceapro's working capital position was ($820,000) at December 31, 2010, an improvement of $453,000 from ($1,273,000) at December 31, 2009.

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

The Company was approved for non-repayable funding in the amount of $124,000 from Alberta Ingenuity. During 2010, the Company received $20,750 which was recorded as a reduction of research and development expenses. The Company anticipates receiving an additional amount of $62,000 in 2011 and $41,250 in 2012 under this program.

The Company was approved for non-repayable funding for up to 50% of eligible costs to a maximum of $99,900 under the Growing Forward Product Development program. The Company recognized $39,824 in 2010 under this program with $22,574 recorded as a reduction of research and development expenses and $17,250 recorded as a reduction of prepaid expenses. An amount of $15,429 was included in accounts receivable at December 31, 2010 with respect to this agreement. The Company anticipates the balance of eligible funding to be received in the first quarter of 2011.

The Company was approved for non-repayable funding in the amount of $50,000 for eligible costs from the Atlantic Canada Opportunities Agency. The Company recorded $39,121 of funding in 2010 as a reduction of research and development expenses and anticipates receiving further $10,879 in 2011 under this program. An amount of $11,272 was recorded in accounts receivable at December 31, 2010 with respect to this agreement.

The Company was approved for non-repayable funding to a maximum of $21,250 of eligible expenditures under the Novel Crops Initiative program from the Prince Edward Island Department of Agriculture. The Company recorded the amount of $5,925 as a reduction of research and development expenditures under this program. An amount of $5,925 is included in accounts receivable at December 31, 2010 with respect to this agreement. The Company anticipates receiving further funding of up to $5,000 in 2011 and $5,000 in 2012.

The Company was approved for non-repayable funding of $7,055 under the Growing Forward Lean Manufacturing Initiative. The Company recognized $5,823 as a reduction of cost of certain property and equipment and $1,232 as a reduction of research and development expenditures. The full amount of $7,055 was included in accounts receivable at December 31, 2010.

The Company received a repayable non-interest bearing contribution for research and development expenditures in the amount of $50,000 from Innovation PEI which is recorded as a repayable research funding liability on the balance sheet. The Company may be eligible for a further contribution of $50,000 in 2011. The contribution is repayable quarterly at a rate of one percent of sales revenue subject to a minimum payment of $12,500 per quarter.

The Company is also eligible to claim up to $1,339,625 of eligible research and development expenditures in 2011 and 2012 under the Canadian Agricultural Adaptation Program. All amounts claimed under the program are repayable interest free over eight years beginning in 2013.

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

Related Party Transactions

During 2010, $21,951 (2009 - $38,699) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at December 31, 2010, $27,758 (2009 - $84,581) of royalties were payable to employees and directors. During 2010 employees and directors converted $71,898 of royalties payable into common shares of the company. Consulting fees of $150,000 (2009 - $150,000) were earned by a Company controlled by a director during 2010. During 2010 officers and directors earned $5,753 of interest on convertible debentures (2009 – $nil). During 2010, officers and directors converted $2,953 of convertible debenture interest into common shares of the Company. As at December 31, 2010 officers and directors owned $70,000 (2009 - $70,000) of convertible debentures. As at December 31, 2010, consulting fees of $nil (2009 – $37,500) were payable to a Company controlled by a director and included in accounts payable and accrued liabilities. 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) During the year ended December 31, 2008 the Company recorded a provision for disputed legal fees from two legal firms in the amount of $741,283 that related to a settled litigation case. 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. Based upon review by management with legal counsel during the year and the circumstances applicable at that time, management believes the Company is no longer exposed to the remaining accrued legal fee liability in the amount of $314,983. The Company recorded a recovery of $314,983 of the remaining disputed legal fees. The balance of $nil is recorded as a liability on the balance sheet in 2010 (2009 - $314,983) as SGGF legal fees.

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 is amortizing the license over 10 years. The license is carried on the balance sheet at $24,000 (2009 - $27,000) which reflects accumulated amortization of $6,000 (2009 - $3,000). The amortization expense of $3,000 (2009 - $3,000) has been included in amortization on the income statement. The Company is obligated to pay the university an amount equal to 8% of net sales from products derived from the mint plants subject to minimum payments as follows:

	$
2011	12,960
2012	20,160
2013	27,360
2014	34,560
2015 to 2017	146,880
Total	241,920

For 2010 the Company recognized a minimum royalty expense of $5,760 (2009 - $5,760). Royalties payable at December 31, 2010 are $13,920 (2009 - $8,160).

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

Results obtained in 2010 are the best ever in the Company's history. The very strong result from the third and fourth quarters of 2010 is solid evidence of the successful implementation of Ceapro's renewed and focused strategy.

From a financial perspective, these results translate into positive trends of improved working capital, a strengthened balance sheet, an ability to reduce debt to royalty holders, and an improved foundation to pursue traditional commercial financing.

This overall improving situation is being noticed by both private and public sectors that see tremendous value in Ceapro technology to form partnerships. Recent contributions from the Atlantic Canada Opportunities Agency, Innovation PEI, Alberta Ingenuity and the Canadian Agricultural Adaptation Program reflect a vote of confidence in both Ceapro technology and our ability to commercialize the novel technology that Ceapro is developing. We anticipate additional partnerships will be completed in the near future.

Thanks to the contributions Ceapro has received, we are able to initiate innovative research projects in both Alberta and Prince Edward Island. Ceapro's participation is being sought in other projects by other parties which should lead to an expanded base of opportunity for growth. We anticipate a need to expand our marketing and business development and plan to commence expansion of our manufacturing facilities.

We believe that Ceapro has turned the corner in 2010. With our strong team of dedicated and hard working staff, we believe Ceapro is well positioned to sustain and grow sales and profitability in 2011.

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.