CEAPRO™
Nature Enhancing Life

Q1 2013

Unaudited Condensed Consolidated Financial Statements
for the First Quarter ended March 31, 2013

The MD&A provides commentary on the results of operations for the periods ended March 31, 2013 and 2012, the financial position as at March 31, 2013, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at May 13, 2013. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at March 31, 2012, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2012 and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2012 which are prepared in accordance with International Financial Reporting Standards (IFRS). All comparative percentages are between the periods ended March 31, 2013 and 2012 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 May 13, 2013, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. Readers are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise unless required by law.

Vision, Core Business, and Strategy

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

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 confirm diabetes diagnosis;

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

- An extension t*o the active ingredients* product range offering, through new plant extract products including products from a unique variety of spearmint;

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

- The development of a new oat variety and certain technologies to increase the content of avenanthramides to high levels to enable new innovative products to be introduced to new markets including medicinal foods, nutraceuticals and botanical drugs.

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

- Identifying unique plant sources and technologies capable of generating novel active natural products;

- Increasing sales and expanding markets for our current active ingredients;

- Developing and marketing additional high-value proprietary therapeutic natural products;

- Developing and improving manufacturing technologies to ensure efficiencies; and

- Advancing new partnerships and strategic alliances to develop new commercial active ingredients, manufacturing technologies, and target markets.

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, and commercializing new, therapeutic natural ingredients and bioprocessing technologies;

- Producing the highest quality work possible in products, science, and business; and

- Developing personnel through guidance, opportunities, and encouragement.

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

Risks and Uncertainties

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

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

a) Credit risk:

Accounts receivable

The Company makes sales to customers that are well-established and well-financed within their respective industries. Based on previous experience the counterparties have had very low default rates and management views this risk as minimal. Approximately 86% of accounts receivable are due from two customers at March 31, 2013 and all accounts receivable are current. These main customers present good credit quality and historically have a high quality credit rating.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $252,896 at March 31, 2013 and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

The Company received $750,000 under a capital expenditure grant agreement and has presented this amount as deferred revenue and considers it restricted cash as it can be spent only for qualified expenditures. During the period ended March 31, 2013 the Company has expended $118,824 of this grant (December 31, 2012 - $41,223). The balance of this grant being $589,953 is presented as deferred revenue and restricted cash and cash equivalents on the balance sheet.

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

b) Liquidity risk:

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

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

	0 - 1 year	1 - 3 years	4 - 7 years	8-12 years	Total
	$	$	$		$
Accounts payable and accrued liabilities	692,599	-	-	-	692,599
Long-term debt, including interest	200,082	600,246	166,735	-	967,063
Royalties interest payable	65,259	-	-	-	65,259
Royalty financial liability	120,754	88,765	-	-	209,519
Repayable CAAP funding	-	201,102	201,102	134,068	536,272
Total	1,078,694	890,113	367,837	134,068	2,470,712

c) Market risk

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

1. Foreign currency risk

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

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

	Carrying Amount (USD)	-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	503,131	5,031	(5,031)
Financial Liabilities			
Accounts payable and accrued liabilities	143,685	(1,437)	1,437
Total increase (decrease)		3,594	(3,594)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at March 31, 2013.

2. Interest rate risk.

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

3. Share price risk.

a) 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.

b) There is a risk that future issuance of common shares may result in material dilution of share value, which may lead to further decline in share price. The expectations of securities analysts and major investors about our financial or scientific results, the timing of such results and future prospects, could also have a significant effect on the future trading price of Ceapro's shares.

4. People and process risk.

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

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

i) Loss of key personnel:

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

ii) Interruption of raw material supply:

Interruption of key raw materials could significantly impact operations and our financial position. Interruption of supply could arise from weather related crop failures or from market shortages. Ceapro attempts to purchase key raw materials well in advance of their anticipated use and is in-licensing technologies from third parties to reduce this risk.

iii) Environmental issues:

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

iv) Regulatory compliance:

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

Newly adopted accounting policies

Employee future benefits

The Company accrues its obligations under an employee defined retirement benefit plan and related costs. The cost of retirement benefits earned by employees is determined using the projected unit credit method and management's best estimate of expected retirement ages of employees. The discount rate used is based on the interest rates for high quality corporate bonds. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur. The Company adopted IAS 19 – Employee Benefits ("IAS 19") amendment retrospectively. The impact of adopting this section was not significant and as such retrospective adjustment to actuarial gains and losses were not recorded. The Company's new treatment is that actuarial gains and losses will be recognized in other comprehensive gain and loss.

Joint ventures

The Company has adopted IFRS 11 – Joint Arrangements ("IFRS 11") beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Fair value measurement

The Company adopted IFRS 13 – Fair value Measurement ("IFRS 13") beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Financial statements presentation

The Company adopted amendments to IAS 1 – Presentation of Financial Statements ("IAS 1") that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Future adopted accounting policies

Financial instruments

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

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

Results of Operations

Periods Ended March 31, 2013, 2012, and 2011

CONSOLIDATED INCOME STATEMENT

$000s except per share data	**2013**	**%**	2012	%	2011	%
Total revenues	**2,012**	**100%**	**1,190**	**100%**	**1,534**	**100%**
Cost of goods sold	**962**	**48%**	521	44%	612	40%
Gross margin	**1,050**	**52%**	**669**	**56%**	**922**	**60%**
Research and product development	**138**	**7%**	163	14%	187	12%
General and administration	**436**	**22%**	392	33%	305	20%
Sales and marketing	**22**	**1%**	71	6%	30	2%
Finance costs	**51**	**3%**	27	2%	47	3%
Income from operations	**403**	**20%**	**16**	**1%**	**353**	**23%**
Other operating income (loss)	**5**	**0%**	(20)	2%	(23)	2%
Net income (loss)	**408**	**20%**	**(4)**	**0%**	**330**	**22%**
Basic net income (loss) per common share	**0.007**		(0.000)		0.006	
Diluted net income (loss) per common share	**0.007**		(0.000)		0.006	

The Company's revenue increased by 69% or $822,000 to $2,012,000 from $1,190,000 and cost of goods sold increased by 85% or $441,000 to $962,000 from $521,000 in comparison with the same period of 2012.

These changes resulted in an increase in gross margin by 57% or $381,000 to $1,050,000 from $669,000. Income from operations has increased by $387,000 to $403,000 from $16,000.

There was a net income in the period ended March 31, 2013 of $408,000 in comparison with net loss in the same period of 2012 of $4,000.

Revenue

	Three Months Ended March 31,		Change
$000s	**2013**	**2012**	
Total revenues	**2,012**	1,190	69%

PRODUCT SALES

Total sales in the period ended March 31, 2013 increased by $822,000 or 69% primarily as a result of higher sales volumes of avenanthramides, beta glucan and veterinary shampoo premix.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

$000s	Three Months Ended March 31, 2013	2012	Change
Sales	**2,012**	1,190	69%
Cost of goods sold	**962**	521	85%
Gross margin	**1,050**	669	**57%**
Gross margin %	**52%**	56%	

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

During the period ended March 31, 2013 the cost of goods sold increased by $441,000 or 85%, from $521,000 in 2012 to $962,000 in 2013. The gross margin in the first quarter of 2013 is higher by 57% mostly due to higher sales. The gross margin percentage decreased by 4% from 56% in the first quarter of 2012 to 52% in the same period of 2013 due to natural feedstock variations and additional investments in quality control and quality assurance.

RESEARCH AND PRODUCT DEVELOPMENT

$000s	Three Months Ended March 31, 2013	2012	Change
Salaries and benefits	167	166	
Regulatory and patents	34	7	
Other	(63)	(15)	
	138	158	-13%
Product development - Ceaprove®	-	5	-100%
Total research and product development expenditures	138	163	-15%

During the period ended March 31, 2013 research and development expenses before *CeaProve*® development decreased by 13% or $20,000 during the same period of 2012 due to grant revenue recognition of discounted CAAP funding and grant contributions from Alberta Innovates Technology Futures.

CeaProve® costs have decreased by 100% from $5,000 to $nil as a result of decreased costs for patents and decreased costs associated with contract manufacturing activities.

GENERAL AND ADMINISTRATION

$000s	Three Months Ended March 31, 2013	2012	Change
Salaries and benefits	164	107	
Consulting	67	86	
Board of Directors compensation	40	41	
Insurance	33	32	
Accounting and Audit fees	15	14	
Rent	25	22	
Public Company Costs	7	22	
Travel	24	17	
Depreciation	11	10	
Legal	20	20	
Other	30	21	
Total general and administration expenses	436	392	11%

General and administration expense for the period ended March 31, 2013 increased by $44,000 or 11% from $392,000 to $436,000 as a result of increased expenses for salaries and benefits of $57,000 mainly as a result of new positions related to new business development and engineering activities and travel of $7,000 due to increased business development activities. This was offset by decreased consulting of $19,000 due to feasibility studies conducted in 2012 and public company costs of $15,000 due to external investor relations activities in 2012.

SALES AND MARKETING

$000s	Three Months Ended March 31, 2013	2012	Change
Travel	13	18	
Consulting	-	45	
Advertising	5	2	
Courses & Conferences	1	-	
Other	3	6	
Total sales and marketing	22	71	-69%

Sales and marketing expenses in the period ended March 31, 2013 decreased by $49,000 or 69% in comparison with the same period of 2012 due to completion of a marketing strategy and branding evaluation project in 2012.

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

FINANCE COSTS

$000s	Three Months Ended March 31, 2013	2012	Change
Interest on royalty financial liability	8	10	
Interest on long-term loan	11	14	
Royalties to University of Guelph & AAFC	23	-	
Accretion of CAAP loan	9	3	
	51	27	89%

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

Finance costs increased in the period ended March 31, 2013 in comparison with the same period of 2012 primarily due to minimum royalties payable to the University of Guelph & AAFC and accretion of the CAAP loan.

The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily decommitted $668,557 as a result of lower anticipated project expenditures to the maximum possible funding under the agreement of $671,068. The end date for project expenditures and start date for repayments were also extended one year to September 30, 2013 and to December 31, 2014 respectively. As the contributions are non-interest bearing, the fair value at inception is estimated as the present value of the principal payments required, discounted using the prevailing market rates of interest for a similar instrument estimated to be 15% per annum. The difference between the fair value of the contributions and the cash received is accounted for as a government grant. The first payment was received in the first quarter of 2011. Accretion of the CAAP loan was $9,000 in the quarter ended March 31, 2013 (2012 – $3,000).

OTHER OPERATING INCOME (LOSSES)

	Three Months Ended March 31,		Change
$000s	**2013**	2012	
Foreign exchange income (losses)	4	(18)	
Other income (losses)	1	(2)	
	5	(20)	125%

Foreign exchange income in the period ended March 31, 2013 were $4,000 in comparison with losses $18,000 in the same period of 2012 due to the weaknesses of the Canadian dollar versus the US dollar during the period ended March 31, 2013 in comparison with the same period of 2012.

DEPRECIATION AND AMORTIZATION EXPENSES

In 2012 the total depreciation and amortization of $76,000 (2012 - $71,000) was allocated as follows: $12,000 to general and administration expense (2012 - $11,000), $18,000 to inventory (2012 - $58,000), and $46,000 (2012 - $2,000) to cost of goods sold. The amount of depreciation and amortization in the first quarter of 2013 was higher than in the same period of 2012 due to the commencement of amortization of manufacturing equipment.

QUARTERLY INFORMATION

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

$000s except per share data	2013	2012				2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenues	2,012	1,202	1,283	1,490	1,190	1,552	1,515	1,185
Net income (loss)	408	(237)	(137)	(160)	(4)	252	(108)	104
Basic net income (loss) per common share	0.007	(0.004)	(0.002)	(0.003)	(0.000)	0.005	(0.002)	0.002
Diluted net income (loss) per common share	0.007	(0.004)	(0.002)	(0.003)	(0.000)	0.005	(0.002)	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	March 31, 2013	December 31, 2012
Non-current assets	1,476	1,508
Current assets	2,136	2,378
Current liabilities	(1,875)	(2,566)
Total assets less current liabilities	1,737	1,320
Non-current liabilities	1,294	1,306
Shareholders' equity	443	14
Total capital employed	1,737	1,320

Non-current assets decreased by $32,000 due to a depreciation provision of $76,000 offset by the acquisition of $44,000 of property and equipment.

Current assets decreased by $242,000. Inventories were lower by $314,000; accounts receivables and prepaid expenses were higher by $211,000. Cash decreased by $20,000 and restricted cash and cash equivalent was spent in the amount of $119,000.

Current liabilities totaling $1,875,000 decreased by the net amount of $691,000 mostly due to increased sales that resulted in decreased deferred revenue of $728,000, restricted cash and cash equivalent received in 2013 under a capital expenditure grant agreement and recorded as deferred revenue spent in the amount of $119,000, current portion of long-term debt increase of $2,000, trade payables and accrued liabilities increased of $114,000, royalty interest accrued of $40,000.

Non-current liabilities totaling $1,294,000 decreased by the net amount of $12,000 due to long-term debt reclassification to current liabilities of $2,000 and repayment of $41,000, royalty financial liability decreased of $33,000, additional accrued employee future benefit obligation of $25,000 and a discounted CAAP loan recognized in the amount of $39,000.

Equity of $443,000 at March 31, 2013 increased by $429,000 from equity of $14,000 at December 31, 2012 due to net income for the period ended March 31, 2013 of $408,000 and recognized share-based compensation of $38,000 offset by accumulated other comprehensive loss of $17,000.

NET DEBT

$000s	March 31, 2013	December 31, 2012
Cash and cash equivalents	253	273
Current financial liabilities	1,024	867
Non-current financial liabilities	1,052	1,089
Total financial liabilities	2,076	1,956
NET DEBT	1,823	1,683

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

The Company's net debt increased by $140,000 due to cash and cash equivalent decrease of $20,000 and CAAP loan discounted amount recognized of $39,000, accounts payable and accrued liabilities increase of $114,000, royalty interest payable accrued of $40,000 offset by long-term debt repayment in the amount of $41,000 and royalty financial liability decreased of $32,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the periods ended March 31, 2013 and 2012.

	Three Months Ended March 31,	
$000s	**2013**	2012
Sources of funds:		
Funds generated from operations (cash flow)	548	53
Restricted cash received	119	-
Repayable CAAP Funding	63	107
	730	160
Uses of funds:		
Changes in non-cash working capital items	(535)	(74)
Purchase of property and equipment	(44)	(57)
Purchase of license	-	(44)
Deferred revenue reduction	(119)	-
Interest paid	(11)	(14)
Repayable research funding repayment	-	(16)
Repayment of long term debt	(41)	(38)
	(750)	(243)
Net change in cash flows	(20)	(83)

Net change in cash flow increased $63,000 during the first three months of 2013 in comparison with the same period of 2012.

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 maintenance investment, and service debt needs.

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

Total common shares issued and outstanding as at May 7, 2013 were 60,278,948 (May 22, 2012 – 60,278,948). In addition, 4,100,000 stock options as at May 7, 2013 (May 22, 2012 – 3,070,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Ceapro's working capital was $261,000 at March 31, 2013, which was increased by $450,000 from working deficiency of $189,000 at December 31, 2012.

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 government funding programs. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all.

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

GOVERNMENT FUNDING

During the year ended December 31, 2010, the Company was approved for non-repayable funding in the amount of $124,000 from Alberta Innovates Technology Futures (AITF). During the quarter ended March 31, 2013, the Company received $4,583 (2012 - $13,750) which was recorded as a reduction of research and product development expenses. The Company anticipates receiving an additional amount of $4,583 in the second quarter of 2013 under this agreement.

During the year ended December 31, 2012 the Company was approved for a second agreement for non-repayable funding in the amount of $124,000 from AITF. During the quarter ended March 31, 2013 the Company received $13,750 which was recorded as a reduction of research and project development expenses. The Company anticipates receiving additional funding of $48,250 in 2013 and $41,250 in 2014 under 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 $5,000 as a reduction of research and product development expenditures under this program in the period ended March 31, 2013 (2012 - $5,000). The Company anticipates no further amount under this program.

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

The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. During the year ended December 31, 2012, the Company voluntarily amended the maximum possible funding under the agreement to $671,068 as a result of lower anticipated project expenditures. The end date for project expenditures was also extended one year to September 30, 2013. All amounts claimed under the program are repayable interest free over eight years beginning in 2014. The Company has received funding of $536,272 to date under this program. A maximum funding amount of $134,796 is anticipated to be received in the balance of 2013.

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

During the year ended December 31, 2011, the Company entered into a Contribution Agreement with AI-BIO Solutions for a non-repayable grant contribution totaling up to $1,600,000 towards the construction of a new bio-processing facility and subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received $750,000 in 2011 classified as restricted cash and cash equivalents and deferred revenue, and anticipates additional amounts will be received as follows - $690,000 in 2013 and $160,000 in 2014. An amount of $160,047 has been recorded as a reduction of capitalized expenditures.

During the year ended December 31, 2012 the Company entered into a contribution agreement with an agency of the federal government to provide funding of up to $345,000 for certain research activities. During the quarter ended March 31, 2013 the Company received or recorded as receivable the amount of $169,009. The Company estimates it will receive a further amount of $133,000 in 2013.

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

Related Party Transactions

During the period ended March 31, 2013, $8,000 (2012 - $4,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at March 31, 2013, $13,000 (2012 - $11,000) of royalties were payable to employees and directors.

During the period ended March 31, 2013, the Company paid key management salaries, short-term benefits, consulting fees and director fees totaling $192,000 (2012 – $158,000) and key management personnel received share-based payments of $21,000 (2012 - $7,000).

As at March 31, 2013, consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities were $21,000 (2012 - $15,000). Amount payable to directors was $29,000 (2012 - $35,000).

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

Commitments and Contingencies

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

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

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

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

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

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

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

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

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

Outlook

We expect 2013 to be a benchmark year. Financial results for the first quarter of 2013 were very strong and we are highly positive for 2013 given forecasts received from our major customers. We are pleased to say the first quarter results represent the best quarterly results in the history of Ceapro. These results were generated from our traditional personal care and animal health customers. Furthermore, the serious interest we are attracting for our products, technologies, and research programs from key industry players in other sectors like functional foods and drinks make us very optimistic for the future.

The successful implementation of our upcoming state of the art facility remains our top priority for 2013 and our related activities in the first quarter progressed as scheduled and we are on track to complete this monumental milestone in 2013. This new facility will house our offices, laboratories and manufacturing activities and allow for the incorporation of new technologies and contract services to allow Ceapro the opportunity to exploit many attractive opportunities. A comprehensive plan has been put in place to secure a smooth transition while maintaining and developing our business in a focused and prioritized manner. This new facility will allow us to reach our vision to be recognized as the Canadian leader in botanical actives and a center of excellence in bioprocessing by 2015.

Our research and development continued to be focussed on our value drivers, avenanthramides and beta glucan. We are pleased that we have been successful in developing new dry formulations of both value drivers and this will allow for continued to development for entry into new market sectors in addition to providing new generation products for our current markets.

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.

Unaudited Condensed Consolidated Financial Statements for the First Quarter Ended March 31, 2013

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed interim consolidated financial statements of Ceapro Inc. (the "Company") have been prepared by and are the responsibility of the Company management.

The Company's independent auditor has not performed a review of these consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CEAPRO INC.

Consolidated Balance Sheets

Unaudited	March 31, 2013	December 31, 2012
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	252,896	273,106
Restricted cash and cash equivalents	589,953	708,777
Accounts receivable	687,668	453,188
Inventories (note 4)	476,064	790,057
Prepaid expenses and deposits	130,047	152,778
	2,136,628	2,377,906
Non-Current Assets		
Licenses (note 5)	71,851	73,717
Property and equipment (note 6)	1,403,984	1,434,345
	1,475,835	1,508,062
TOTAL ASSETS	3,612,463	3,885,968
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	692,599	578,216
Current portion of deferred revenue	851,630	1,699,110
Current portion of long-term debt	170,738	168,637
Royalties interest payable	65,259	25,037
Current portion of royalty financial liability	95,029	95,378
	1,875,255	2,566,378
Non-Current Liabilities		
Royalty financial liability	77,757	109,931
Employee future benefits obligation (note 7)	241,546	217,219
Long-term debt	714,672	757,898
CAAP loan (note 9)	260,053	220,978
	1,294,028	1,306,026
Equity		
Share capital (note 8b)	6,315,858	6,315,858
Contributed surplus	470,153	431,792
Accumulated other comprehensive loss	(16,916)	-
Deficit	(6,325,915)	(6,734,086)
	443,180	13,564
TOTAL LIABILITIES AND EQUITY	3,612,463	3,885,968

See accompanying notes

CEAPRO INC.

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

Unaudited

	Three months Ended March 31, 2013	2012
	$	$
Revenue	2,012,279	1,189,513
Cost of goods sold	962,385	520,694
Gross margin	1,049,894	668,819
Research and product development	137,711	162,472
General and administration	436,513	391,888
Sales and marketing	22,353	71,426
Finance costs (note 12)	50,506	26,736
Income from operations	402,811	16,297
Other operating income (loss) (note 11)	5,360	(19,813)
Net income (loss) for the period	408,171	(3,516)
Other comprehensive loss		-
Actuarial loss on employee future benefit obligation (note 7)	(16,916)	-
Total comprehensive income (loss) for the period	391,255	(3,516)
Net income (loss) per common share (note 18):		
Basic	0.01	(0.00)
Diluted	0.01	(0.00)
Weighted average number of common shares outstanding	60,278,948	60,278,948

See accompanying notes

CEAPRO INC.
Consolidated Statements of Changes in Equity
Unaudited

	Share Capital $	Contributed surplus $	Deficit $	Accumulated other comprehensive loss $	Equity $
Balance December 31, 2012	6,315,858	431,792	(6,734,086)	-	13,564
Share-based payments	-	38,361	-	-	38,361
Net income for the period	-	-	408,171	-	408,171
Other comprehensive loss (actuarial loss) (note 7)	-	-	-	(16,916)	(16,916)
Balance March 31, 2013	6,315,858	470,153	(6,325,915)	(16,916)	443,180
Balance December 31, 2011	6,315,858	397,631	(6,195,733)	-	517,756
Share-based payments	-	7,233	-	-	7,233
Net loss for the period	-	-	(3,516)	-	(3,516)
Balance March 31, 2012	6,315,858	404,864	(6,199,249)	-	521,473

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

	Three Months Ended March 31, 2013 $	2012 $
OPERATING ACTIVITIES		
Net income (loss) for the period	408,171	(3,516)
Adjustments to reconcile net income (loss) to cash and cash equivalents provided by operating activities		
Finance costs	41,478	23,455
Depreciation and amortization	76,134	71,041
Accretion of CAAP loan	9,028	2,542
Grant revenue recognized	(32,652)	(55,463)
Employee future benefits obligation	7,411	7,279
Share-based payments	38,361	7,233
Net income (loss) for the period adjusted for non-cash items	547,931	52,571
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Accounts receivable	(234,480)	(13,533)
Inventories	313,993	(118,708)
Prepaid expenses and deposits	22,731	(14,653)
Deferred revenue	(728,656)	194,722
Accounts payable and accrued liabilities	91,883	(121,877)
	(534,529)	(74,049)
	13,402	(21,478)
Interest paid	(11,279)	(14,308)
CASH GENERATED FROM OPERATIONS	2,123	(35,786)
INVESTING ACTIVITIES		
Purchase of property and equipment	(43,907)	(56,528)
Purchase of licenses	-	(44,439)
	(43,907)	(100,967)
FINANCING ACTIVITIES		
Repayment of long-term debt	(41,125)	(37,845)
Repayable CAAP Funding	62,699	107,104
Deferred revenue	(118,824)	-
Restricted cash and cash equivalents	118,824	-
Repayable research funding repayment	-	(15,520)
	21,574	53,739
Decrease in cash and cash equivalents	(20,210)	(83,014)
Cash and cash equivalents at beginning of period	273,106	592,259
Cash and cash equivalents at end of period	252,896	509,245

See accompanying notes

Cash and cash equivalents are comprised of $196,394 (2012 - $250,913) on deposit with financial institutions and $56,502 (2012 - $258,332) held in money market mutual funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012.

1. NATURE OF BUSINESS OPERATIONS AND GOING CONCERN

Ceapro Inc. (the "Company") is incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange. The Company's primary business activities relate to the marketing and development of various health and wellness products and technology relating to plant extracts.

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

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge liabilities in the normal course of operations. However, certain conditions may cast significant doubt upon the validity of this assumption. During the period ended March 31, 2013 the Company recorded a net income of $408,171 and as of that date had accumulated a deficit of $6,325,915.

In 2013 the Company will require additional funds, in excess of current committed funding, to construct leasehold improvements and purchase equipment for a new manufacturing facility to execute its business plan. The current total estimated financial commitments are $4,700,000 and additionally, future operating lease commitments have been made in support of the new manufacturing facility. As at March 31, 2013, the Company has cash and cash equivalents of $589,953 restricted for development of the new facility and commitments for an additional $950,000. The Company anticipates that it will require additional funds in an amount currently estimated at $2,700,000 to complete the project.

Since inception, the Company has accumulated net losses, generated inconsistent operating cash flow and has not yet achieved consistent profitability. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company's operations. The Company's ability to continue as a going concern is dependent on obtaining additional financial capital, achieving profitability, and generating consistent positive cash flow. Management is pursuing additional funding with long term partners, government programs, and other sources to fully fund its anticipated needs. There can be no assurance that the Company will be able to access capital when needed, achieve profitability, or generate positive cash flow.

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

2. ACCOUNTING PRINCIPLES FOR INTERIM FINANCIAL STATEMENTS

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of consolidated financial statements, including IFRS 34, “Interim Financial Reporting”. The accounting principles and methods of computation adopted in these financial statements are the same as those of the annual financial statements for the year ended December 31, 2012.

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements. The financial statements and notes presented should be read in conjunction with the annual financial statements for the year ended December 31, 2012.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on May 13, 2013.

Basis for Presentation

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

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

All intercompany accounts and transactions have been eliminated on consolidation.

3. CHANGES IN ACCOUNTING POLICIES

Newly adopted accounting policies

Employee future benefits

The Company accrues its obligations under an employee defined retirement benefit plan and related costs. The cost of retirement benefits earned by employees is determined using the projected unit credit method and management's best estimate of expected retirement ages of employees. The discount rate used is based on the interest rates for high quality corporate bonds. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur. The Company adopted IAS 19 – Employee Benefits ("IAS 19") amendment retrospectively. The impact of adopting this section was not significant and as such retrospective adjustment to actuarial gains and losses were not recorded. The Company's new treatment is that actuarial gains and losses will be recognized in other comprehensive gain and loss.

Joint ventures

The Company has adopted IFRS 11 – Joint Arrangements ("IFRS 11") beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Fair value measurement

The Company adopted IFRS 13 – Fair value Measurement ("IFRS 13") beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Financial statements presentation

The Company adopted amendments to IAS 1 – Presentation of Financial Statements ("IAS 1") that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

Future adopted accounting policies

Financial instruments

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

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

4. INVENTORIES

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

	March 31, 2013 $	December 31, 2012 $
Raw materials	229,755	258,439
Work in progress	103,182	113,399
Finished goods	143,127	418,219
	476,064	790,057

Inventories expensed to cost of goods sold during the period ended March 31, 2013 are $952,721 (March 31, 2012 - $506,063).

5. LICENSES

During the year ended December 31, 2012 the Company entered into a new license agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and will amortize the license over 15 years commencing in April 2012. Amortization of $741 has been included in general and administration for the period ended March 31, 2013 (March 31, 2012 - $nil) (see note 15(d)).

During the year ended December 31, 2011, the Company entered into a new licensing agreement with the University of Guelph for an exclusive variety of a mint plant. This agreement replaced the agreement the Company entered during the year ended December 31, 2008. The Company paid a licensing fee of $30,000 in 2008 and $15,000 in 2011 and will amortize the total license over 10 years being the term of the amended licensing agreement. Amortization of $1,125 has been included in general and administration for the period ended March 31, 2013 (March 31, 2012 - $1,125) (see note 15(c)).

Cost of Licenses	$
Balance - December 31, 2012	89,439
Additions	-
Balance - March 31, 2013	89,439
Accumulated amortization	
Balance - December 31, 2012	15,722
Amortization	1,866
Balance - March 31, 2013	17,588
Net book value	
Balance - March 31, 2013	71,851
Balance - December 31, 2012	73,717

6. PROPERTY AND EQUIPMENT

Cost	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
December 31, 2012	24,370	3,127,569	80,034	294,902	120,364	3,647,239
additions	-	30,075	-	5,332	8,500	43,907
March 31, 2013	24,370	3,157,644	80,034	300,234	128,864	3,691,146
Accumulated depreciation						
December 31, 2012	-	1,800,959	65,534	226,037	120,364	2,212,894
depreciation	-	68,051	725	5,492	-	74,268
March 31, 2013	-	1,869,010	66,259	231,529	120,364	2,287,162
Carrying value						
March 31, 2013	24,370	1,288,634	13,775	68,705	8,500	1,403,984
December 31, 2012	24,370	1,326,610	14,500	68,865	-	1,434,345

Depreciation expense allocation for the following periods:

	Cost of goods sold $	Inventory $	G&A $	Total $
Period ended March 31, 2013	45,906	18,731	9,631	74,268
Period ended March 31, 2012	1,970	58,303	9,643	69,916

7. EMPLOYEE FUTURE BENEFITS OBLIGATION

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

Management is required to make an estimate regarding the discount rate used to determine the accrued benefit obligation. This estimate is of a long-term nature, which is consistent with the nature of the employee future benefits. The discount rate used to determine the accrued benefit obligation as at March 31, 2013 was 2.30% (2012 - 4.19%). Actuarial losses in the amount of $16,916 are recorded as other comprehensive loss in the period ended March 31, 2013.

Defined benefit costs have been presented under research and product development expenses in the consolidated statements of net income (loss) for the period ended March 31, 2013.

Accrued benefit obligation	**Three Months Ended March 31, 2013** $	Year Ended December 31, 2012 $
Unfunded balance, beginning of year	**217,219**	187,302
Current service cost	**6,065**	21,606
Interest costs on accrued benefit obligation	**1,346**	8,311
Actuarial losses	**16,916**	-
	241,546	217,219

Elements of defined benefit costs recognized in the period	**Three Months Ended March 31, 2013** $	Year Ended December 31, 2012 $
Current service cost	**6,065**	21,606
Interest cost on accrued benefit obligation	**1,346**	8,311
	7,411	29,917

8. SHARE CAPITAL

a. Authorized

   i. Unlimited number of Class A voting common shares. Class A common shares have no par value.

   ii. Unlimited number of Class B non-voting common shares. There are no issued Class B shares.

b. Issued - Class A common shares

	Three Months Ended March 31, 2013		**Year Ended December 31, 2012**	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of the period	**60,278,948**	**6,315,858**	60,278,948	6,315,858
Share issued during the period	**-**	**-**	-	-
Balance at end of the period	**60,278,948**	**6,315,858**	60,278,948	6,315,858

c. Stock options outstanding are as follows:

Fair Value dates	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	**March 31, 2013 Number of Options**	December 31, 2012 Number of Options
0.05	0.10	2023	9.8	**1,370,000**	**-**
0.09	0.10	2022	9.3	**300,000**	300,000
0.11	0.15	2016	3.3	**400,000**	400,000
0.06	0.10	2015	2.4	**530,000**	530,000
0.10	0.13	2014	1.3	**900,000**	900,000
0.08	0.12	2013	0.4	**600,000**	600,000
0.15	0.25	2013	-	**-**	210,000
			4.9	**4,100,000**	**2,940,000**

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for share-based payments. In the period ended March 31, 2013 the Company granted 1,400,000 (December 31, 2012 – 300,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock, life of the options and forfeiture rate. The weighted average risk-free rate used in 2013 was 1.62% (2012 - 1.51%), the weighted average expected volatility was 111% (2012 - 111%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 10 years (2012 – 10 years), forfeiture rate was 0% (2012 - 0%), the weighted average share price was $0.06 (2012 – $0.10), the weighted average exercise price was $0.10 (2012 – $0.10), and the expected dividends were nil (2012 - nil). The weighted average grant date fair value of options granted in the period ended March 31, 2013 were $0.05 (2012 - $0.09) per option.

9. CAAP LOAN

The balance of repayable contribution is derived as follows:

	Three months Ended March 31, 2013 $	Year Ended December 31, 2012 $
Opening balance	220,978	57,432
Funding received or receivable	62,699	350,492
Grant revenue recognised	(32,652)	(188,312)
Extinguishment of the original liabilities	-	(119,772)
Recognition new liabilities	-	102,972
Accretion of CAAP loan	9,028	18,166
	260,053	220,978

The principal repayment required for amounts received from inception to March 31, 2013 is $67,034 annually from 2014 through 2021.

10. RELATED PARTY TRANSACTIONS

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

	Three Months Ended March 31,	
	2013	2012
	$	$
Royalties earned by employees and directors	8,141	4,489
Amounts payable to employees and directors included in royalties payable	12,773	10,807
Key management salaries, short-term benefits, consulting fees and director fees	191,750	157,585
Key management personnel share based payments	21,248	7,056
Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities	21,000	15,000
Amount payable to directors	28,750	35,000

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

11. OTHER OPERATING INCOME (LOSSES)

	Three Months Ended March 31,	
	2013	2012
	$	$
Foreign exchange income (losses)	3,871	(17,705)
Other income (losses)	1,489	(2,108)
	5,360	(19,813)

12. FINANCE COSTS

	Three Months Ended March 31,	
	2013	2012
	$	$
Interest on royalty financial liability	7,831	9,886
Interest on long-term loan	11,147	14,308
Royalties to University of Guelph & AAFC	22,500	-
Accretion of CAAP loan	9,028	2,542
	50,506	26,736

13. SEGMENTED INFORMATION

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

	Three Months Ended March 31,	
	2013	2012
	$	$
United States	1,495,096	842,933
Germany	379,016	282,130
Other	130,896	29,213
Canada	7,271	35,237
	2,012,279	1,189,513

14. EMPLOYEE BENEFITS

	Three Months Ended March 31,	
	2013	2012
	$	$
Employee benefits	**591,664**	518,429

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

15. CONTINGENCIES AND COMMITMENTS

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

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

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

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

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

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

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

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

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

16. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

a) Credit risk:

Accounts receivable

The Company makes sales to customers that are well-established and well-financed within their respective industries. Based on previous experience the counterparties had zero default rates and management views this risk as minimal. Approximately 86% of accounts receivable are due from two customers at March 31, 2013 and all accounts receivable are current. These main customers present good credit quality and historically have a high quality credit rating.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of $252,896 at March 31, 2013 and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

The Company received $750,000 under a capital expenditure grant agreement and has presented this amount as deferred revenue and considers it restricted cash as it can be spent only for qualified expenditures. During the period ended March 31, 2013 the Company has expended $118,824 of this grant (December 31, 2012 - $41,223). The balance of this grant being $589,953 is presented as deferred revenue and restricted cash and cash equivalents on the balance sheet.

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

b) Liquidity risk:

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

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

	0 - 1 year $	1 - 3 years $	4 - 7 years $	8-12 years	Total $
Accounts payable and accrued liabilities	692,599	-	-	-	692,599
Long-term debt, including interest	200,082	600,246	166,735	-	967,063
Royalties interest payable	65,259	-	-	-	65,259
Royalty financial liability	120,754	88,765	-	-	209,519
Repayable CAAP funding	-	201,102	201,102	134,068	536,272
Total	1,078,694	890,113	367,837	134,068	2,470,712

c) Market risk:

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

1. Foreign currency risk

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

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	503,131	5,031	(5,031)
Financial Liabilities			
Accounts payable and accrued liabilities	143,685	(1,437)	1,437
Total increase (decrease)		3,594	(3,594)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at March 31, 2013.

2. Interest rate risk.

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

17. CAPITAL DISCLOSURES

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

The Company has funded its activities through public offerings and private placements of common shares, royalty offerings, loans, convertible debentures, and grant contributions.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2012.

18. INCOME (LOSS) PER COMMON SHARE

	Three Months Ended March 31, 2013	2012
Net income (loss) for the period for basic and diluted earnings per share calculation	$408,171	($3,516)
Weighted average number of shares outstanding	60,278,948	60,278,948
Diluted shares outstanding	60,278,948	60,278,948
Income (loss) per share - basic	$0.01	($0.00)
Income (loss) per share - diluted	$0.01	($0.00)