



Annual Report 2013

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COPIO Inc. is a Canadian biotechnology company involved in the development of proprietary extraction technology and the application of this technology to the production of extracts and "active ingredients" from oats and other renewable plant resources. Ceapro adds further value to its extracts by supporting their use in cosmeceutical, nutraceutical, and therapeutic products for humans and animals.

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders

Year 2013 will be remembered as the most solid year ever in the history of Ceapro. Not only did we achieve a net profit and the best sales results with a 26.3% increase over 2012, but also we did it during a year of major investments for the acquisition of equipment and the construction of a new facility. Keeping the business up and running while implementing a special project is always a major challenge. We made it! And this achievement is due to our dedicated employees who deployed tremendous efforts to respond to the growing demand while working diligently to plan and implement what is going to be a unique "top notch" state-of-the-art bioprocessing facility.

This major achievement would have not been possible without the unconditional support and vote of confidence from our major long term partners, Symrise AG, Alberta Financial Services Corporation, Al Bio Solutions, the NRC Industrial Research Assistance program, and the Growing Forward 2 program.

These partnerships allowed us to complete in a non-dilutive manner the financing for the acquisition of customized equipment and construction of the state-of-the-art facility in Edmonton, Alberta.

From a product portfolio investment perspective, and as a continuum to the product stories featured in our 2012 annual report, we focused our research activities on the development of our value drivers – avenanthramides and beta glucan - new formulations for potential new indications. We are very encouraged by the development of technologies to produce dry formulations of these value drivers and especially by the positive results obtained from feasibility studies conducted with a Montreal-based organization to assess their potential to be developed as active ingredients for the large nutraceutical and/or pharmaceutical markets.

In this trendy era of natural products and botanical drugs, we wish to pioneer the concept, "From Plant to Pill", according to the highest recognized pharmaceutical standards.

Looking at key accomplishments in 2013, we are very proud of our dedicated people who achieved the following:

- Total sales of \$6,524,000 compared to \$5,165,000 in 2012, an increase of 26.3%
- Net profit of \$176,000 compared to a net loss of \$538,000 in 2012
- Near completion of a special project for the relocation of Ceapro's facility
- Signing of a long-term Licence and Distribution Agreement with German-based multinational, Symrise AG, a leading provider of active ingredients for personal care
- Signing of two loan agreements at attractive interest rates, which is demonstration of confidence in Ceapro
- Signed an Agri-Processing Automation and Efficiency Grant Agreement with Alberta Agriculture and Rural Development for a contribution up to \$673,000
- Successful development of dry formulations for beta glucan and avenanthramides with positive outcomes for potential nutraceutical/pharmaceutical development
- · Obtained key patents for beta glucan in Europe and Japan and for avenanthramides in the USA.

While it takes years to build a company "brick by brick," we are now very confident that we have established a solid foundation for growth. We have all the key ingredients for success: a base business with the cosmetic sector, which provides a revenue stream, a well advanced near-term catalyst with dry beta glucan as a functional food/nutraceutical and a long-term catalyst with dry formulations of avenanthramides for the nutraceutical and/or pharmaceutical markets.

With these conditions, combined with our current strong order book and upcoming strategic initiatives, this is an exciting time for all of us at Ceapro, as well as for our partners and shareholders. Our vision is more than ever to be recognized as the Canadian leader in botanical actives and a center of excellence in bioprocessing by 2015.

Our small group of employees has bought into these challenges and we thank everyone for their efforts in striving to make Ceapro one of the best biotech companies in Canada.

We wish to thank our customers and you as shareholders for your support and confidence.

GILLES R. GAGNON, M.Sc., MBA PRESIDENT AND CEO ED TAYLOR, CGA CHAIRMAN OF THE BOARD

May 1, 2014



Unique Bioprocessing Expertise

Ceapro undertook a major relocation project back in 2012, following a significant corporate effort and thorough due diligence of alternative manufacturing options as well as alternative locations. It was clear that Ceapro needed its own manufacturing facility given its unique proprietary and innovative technologies. A suitable location was selected in South Edmonton.

Today, the construction of this new and unique bioprocessing facility comprising about 20,000 sq. ft. is almost completed. This is by far the largest and most exciting project we have undertaken.

Ceapro will be one of the very few bioprocessors in Canada and the only one capable of producing its unique oatderived products. Our facility will host the entire company under one roof, will hold a Natural Health Products site licence from Health Canada, and will be GMP qualified to meet the standards of some of the largest and most stringent multi-national companies. Furthermore, the new facility will, for the first time, allow Ceapro to leverage its expertise in bioprocessing and generate additional revenue from custom bioprocessing for third party customers who have their own products and extraction process.

The facility is expected to come on stream at a time when a host of positive influences are coming together for Ceapro. These include the commercialization of our development projects that have shown positive results to date, a heightened awareness and acceptance to incorporate mother nature into our daily health care regimes, and a sharply increased awareness and amount of research being conducted on oat products, especially our core value drivers, avenanthramides and beta glucan.

Our development projects have focussed on our expertise in oats and developing new innovative natural health care products to address global needs. Oats have a host of well documented health care benefits. However, to exploit these opportunities numerous challenges must be overcome including adequate and quality feedstock, proper formulations, manufacturing scale up, and scientific testing. Our activities over the last few years have focussed on overcoming these challenges and we have been thrilled with the results to date.

There is a tremendous value in these new health care technologies, a value that is separate and distinct from Ceapro's traditional bioprocessing business.

While we expect growth in our bioprocessing business as our new facility is brought into commercial production, we expect an even bigger increase in value as we are able to commercialize some of our development projects into new products for the medicinal food, nutraceutical, or pharmaceutical markets. The next pages provide an update on these projects and what it means for Ceapro.



High quality feedstock



Molecule identification and analytics



Optimization of products from nature



Bioprocessing and production



Commercial phytochemicals

FROM FIELD TO FORMULATION

Personal Care: Our Base Business

Our strategic path is clear: we will grow our customer base and presence in the personal care cosmetic market, while continuing to explore and clinically validate new product applications for our value drivers, avenanthramides and beta glucan under different formulations.

AVENANTHRAMIDES

Ceapro's flagship product, avenanthramides, is a group of polyphenol compounds found exclusively in oats. This group of molecules that work synergistically represent the active component of oats that provides relief for a host of skin conditions, such as eczema, chicken pox, and insect bites. Ceapro is the only company in the world producing the only commercial natural avenanthramide product which is featured in several of the best-selling global personal care brands.

One of the challenges to further penetrate the personal care market is the relatively small supply of commercial oats that have adequate quantities of avenanthramides to be commercially profitable and therapeutic. Reliability of supply is also a challenge since the oat quality will vary widely from year to year; thus, making security of supply an issue. In 2012, Ceapro entered into two technology agreements with Agriculture and Agri Food Canada (AAFC) to address this situation. The first is an oat process technology that, when applied to a certain oat variety post-harvest, can drastically increase the avenanthramide content from non-commercial amounts to amounts well beyond what Ceapro has ever purchased on the open market. The second agreement provided access to a particular new oat variety (non-GMO), which consequently requires Ceapro to grow the variety.

AAFC Process Technology - Update and Ceapro's Opportunity

In 2013, the new oat variety was successfully grown in Alberta and Saskatchewan. The harvest showed good yields and high quality. Also, using the AAFC technology to get overexpression of avenanthramides, Ceapro has been able to boost the concentrations of avenanthramides from very low, nearly non-detectable levels up to levels more than double what Ceapro typically commercially extracts. In 2014, scale up of the process will continue and we expect that later in the year, we will run some commercial scale test extractions on our stimulated oats.

The ability to grow large amounts of high yield oats that can be stimulated will overcome any limitations caused by scarce supply or procurement issues and will allow to serve larger markets. Furthermore, this project will provide a huge boost to the gross margin for Ceapro's bioprocessing business, since the contents of avenanth-ramides in the grain have been increased to previously unheard of levels.

BETA GLUCAN

Ceapro's value driver product, beta glucan, is known as the anti-aging active ingredient included in well known brands. Studies have shown that beta glucan is highly effective in stimulating collagen synthesis and can play a prominent role in skin restructuring and wound healing.

Beta glucan extracted from oat is water soluble. Ceapro has shown the unusual ability of its oat-based beta glucan to penetrate skin deeply despite its large molecular weight. As a result, the use of oat beta glucan as a potential delivery system has attracted interest from multiple parties looking to improve the delivery of their therapeutic products. The potential to impregnate or encapsulate bioactives with formulations of beta glucan has increased the interest in determining its potential as a delivery platform.



Supercritical Fluid Drying Technology - Update and Ceapro's Opportunities

Ceapro's oat beta glucan is currently sold as a liquid formulation. In order to fully exploit the potential of beta glucan, Ceapro embarqued in 2012 in a major project to develop dry formulations. Ceapro then elected to conduct research work by using a technology developed at the University of Alberta. Such technology, based on supercritical conditions, enabled the successful development of dry formulations of beta glucan at the lab scale level.

In 2013, the goal was to scale up and automate the process while decreasing the production costs. Because this Supercritical Fluid Technology and equipment is extremely rare, we did it in partnership with Prince Edward Island (PEI) based BIOFOODTECH where the process was significantly scaled up. This pilot system produced dried oat beta glucan that retained all of its valuable properties including high molecular weight and high viscosity. After

reaching maximum scale in PEI, work was transferred to a new technical partner in Boston who provided small-scale, commercial-grade equipment suitable for Ceapro's needs as well as engineering and fabrication services for building needed equipment. In Boston, further improvements were made to the process to drive costs down and in late 2013, a multi-tonne per day flow rate was successfully achieved. Further increases in scale and flow rates are being tested in 2014 and we are pleased with all results this far. A study to test the impregnation capabilities of beta glucan is now conducted at the prestigious Massachusetts Institute of Technology.





FROM PLANT TO PILL

Healthcare: Our Near-Term and Long-Term Catalysts

Our strategic path is clear: while we will grow our customer base and presence in the personal care market, we will explore and clinically validate new product applications for our value drivers, avenanthramides and beta glucan in nutraceutical and pharmaceutical markets.

AVENANTHRAMIDES

Ceapro's flagship product, avenanthramides, is a group of polyphenol compounds. In addition to cosmetics applications, it has been suggested that Ceapro's flagship product, avenanthramides, when taken orally could be beneficial in serious conditions like inflammatory bowel syndrome, atherosclerosis, colon cancer, and joint inflammation. These findings led to the idea that avenanthramides could be developed as an active pharmaceutical ingredient (API). In order to achieve this, we have to be able to produce it in adequate quantities to allow for a bioavailable formulation that will enable us to conduct clinical trials to demonstrate the safety and efficacy of avenanthramides in targeted indications.

High Purity Avenanthramides - Update and Ceapro's Opportunity

As mentioned in the personal care section, Ceapro has developed a process to increase concentrations of avenanthramides from oats. Also, in order to develop these compounds as an API, avenanthramides need to be highly purified and well characterized.

In 2013, Ceapro successfully identified a chromatographic method and tailored it to purify all the naturally occurring avenanthramides from our current wet extraction process product. In addition, Ceapro has been able to scale up the processing volume and achieve high purity levels. The resulting high purity product was subsequently freezedried into high quality powder. This powder was then assessed for its suitability to be developed as active ingredients for nutraceutical and/or pharmaceutical markets. Outcomes from a feasibility study conducted with a Montreal based organization showed very positive results.

BETA GLUCAN

Ceapro's value driver product, beta glucan, is also well known for its cholesterol lowering properties as well as modulating glucose metabolism. The high purity of the powder obtained with our Supercritical Fluid Drying Technology leads us to the development of beta glucan beyond the personal care market and look at nutraceutical and pharmaceutical markets using beta glucan to target metabolic diseases.

Update and Ceapro's Opportunity

A feasibility study to assess the potential of the powder to be developed as active ingredients for nutraceutical and/or pharmaceutical markets showed very positive results. The stage is now set for pre-clinical studies and further clinical trials for both avenanthramides and beta glucan.

** MANAGEMENT'S DISCUSSION & ANALYSIS

The MD&A provides commentary on the results of operations for the years ended December 31, 2013 and 2012, the financial position as at December 31, 2013, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 14, 2014. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2013, 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 years ended December 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 April 14, 2014, 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 to the active ingredients product range offering, through new plant extract products;
- 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. Our marketing strategy emphasizes providing technical support to our distributors and their customers to maximize the value of our technology and product utilization. Our vision and business strategy are supported by our commitment to the following core values:

- Adding value to all aspects of our business;
- Enhancing the health of humans and animals;
- Discovering 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

Trade and other receivables

The Company makes sales to customers that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 94% of trade receivables are due from two customers at December 31, 2013 and all trade receivables are current. These main customers present good credit quality and historically have a high quality credit rating.

Other receivables represent amounts due for research program claims, government goods and services taxes, and scientific and research tax credits. Management has assessed the credit risk to be low.

Cash and cash equivalents

The Company has cash and cash equivalents in the amount of \$1,953,019 at December 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.

There are no past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's trade and other receivables, 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. The Company may be exposed to liquidity risks if it is unable to collect its trade and other receivables 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 trade receivables 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	994,408	-	-	-	994,408
Loan payable secured by certain intellectual property due January, 2019	288,234	628,873	655,077	-	1,572,184
Loan payable secured by a general security agreement due April, 2019	85,169	255,507	298,092	_	638,768
Long-term debt, including interest	200,082	400,164	216,756	-	817,002
Royalties interest payable	31,631	_	-	_	31,631
Royalty financial liability	106,692	_	_	_	106,692
Repayable CAAP funding	83,883	167,766	335,536	83,883	671,068
Total	1,790,099	1,452,310	1,505,461	83,883	4,831,753

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	FOREIGN EXCHA	ANGE RISK (USD)
	AMOUNT (USD)	- 1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial assets			
Accounts receivable	231,017	2,310	(2,310)
Financial liabilities			
Accounts payable and accrued liabilities	219,405	(2,194)	2,194
Total increase (decrease)		116	(116)

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

2. Interest rate risk

The Company has minimal interest rate risk because its long-term debt agreements are all at fixed rates.

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.
- 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 always strives to identify and retain key employees and always strives 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 previously recognized actuarial gains and losses in profit or loss. Under the new standard, actuarial gains and losses will be recognized in other comprehensive income or loss. The Company retrospectively adopted IAS 19 – Employee Benefits ("IAS 19") amendment beginning the first quarter of its 2013 financial year. The impact of adopting this section was not significant, and as such, retrospective adjustment to actuarial gains and losses were not recorded.

CONSOLIDATION

In May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements ("IFRS 10"), which supersedes SIC 12 and the requirements relating to consolidated financial statements in IAS 27 – Consolidated and Separate Financial Statements ("IAS 27"). IFRS 10 is effective for annual periods beginning on of after January 1, 2013, with earlier application permitted under certain circumstances.

IFRS 10 establishes control as the basis for an investor to consolidate its investees and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee.

In addition, the IASB issued IFRS 12 – Disclosure of Interest in Other Entities ("IFRS 12"), which combines and enhances the disclosure requirements for the Company's subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Company's interests in other entities and the effect of those interests on the Company's consolidated financial statements.

Concurrently with the issuance of IFRS 10, IAS 27 and IAS 28 – Investments in Associates ("IAS 28") were revised and reissued as IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures to align with the new consolidation guidance.

The Company has adopted IFRS 10 – Consolidated Financial Statements ("IFRS 10"), IFRS 12 – Disclosure of Interest in Other Entities ("IFRS 12"), reissued IAS 28 – Investments in Associates and Joint Ventures ("IAS 28"), and IAS 27 – Separate Financial Statements beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

JOINT VENTURES

In May 2011, the IASB issued IFRS 11 – Joint Arrangements ("IFRS 11"), which supersedes IAS 31 – Interest in Joint Ventures and SIC-13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is effective for

annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint ventures") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognizes its portion of assets, liabilities, revenues, and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method.

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

In May 2011, as a result of a convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 - Fair value Measurement ("IFRS 13"). IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized.

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 ACCOUNTING POLICIES NOT YET ADOPTED

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 principle-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 has not yet been determined by the IASB. The Company has not yet assessed the impact that this new standard is likely to have on its consolidated financial statements.

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011

CONSOLIDATED INCOME STATEMENT

\$000S EXCEPT PER SHARE DATA	2013	%	2012	%	2011	%
Total revenues	6,524	100%	5,165	100%	5,786	100%
Cost of goods sold	3,425	53%	2,716	53%	2,538	44%
Gross margin	3,099	47%	2,449	47%	3,248	56%
Research and product development	731	11%	856	17%	997	17%
General and administration	1,709	26%	1,795	35%	1,374	24%
Sales and marketing	85	1%	199	4%	111	2%
Finance costs	127	2%	113	2%	181	3%
Income (loss) from operations	447	7%	(514)	-10%	585	10%
Other operating loss	(271)	-4%	(24)	0%	(7)	0%
Net income (loss)	176	3%	(538)	-10%	578	10%
Basic net income (loss) per common share	0.003		(0.009)		0.009	
Diluted net income (loss) per common share	0.003		(0.009)		0.009	

During the year ended December 31, 2013, the Company's revenue increased by 26% or \$1,359,000 to \$6,524,000 from \$5,165,000 in 2012 and cost of goods sold increased by 26% or \$709,000 to \$3,425,000 from \$2,716,000 in comparison with the same period of 2012. These changes resulted in an increase in the amount of gross margin by 27% or \$650,000 to \$3,099,000 in 2013 from \$2,449,000 in 2012.

Income from operations has increased by \$961,000 to an income of \$447,000 in 2013 from a loss of \$514,000 incurred during the year ended December 31, 2012.

There was a net income in the year ended December 31, 2013 of \$176,000 in comparison with a net loss of \$538,000 in the same period of 2012 mostly due to an increase in sales and decreased research and product development, general and administration, and sales and marketing expenses, offset by higher other expenses, mainly rent on the new facility.

During the fourth quarter of 2013, the Company's revenue increased by 25% or \$300,000 to \$1,502,000 from \$1,202,000 in 2012 and cost of goods sold increased by 14% or \$105,000 to \$874,000 from \$769,000 in comparison with the same period of 2012. These changes resulted in an increase in the amount of gross margin by 45% or \$195,000 to \$628,000 in 2013 from \$433,000 in 2012.

There was an increase in income from operations of \$251,000 in the fourth quarter of 2013 from \$250,000 loss to income from operations of \$1,000 in the same period of 2013.

There was a decrease in net loss in the quarter ended December 31, 2013 of \$135,000 to \$103,000 from \$238,000 in 2012. The Company commenced paying rent on its new manufacturing facility in April 2013 which has been classified as other operating loss as the facility is not yet in the condition necessary to commence operations.

REVENUE

	Year Ended December 31			-	r Ended iber 31	
\$000\$	2013 2012 CHANGE		2013	2012	CHANGE	
Total revenues	6,524 5,165 26%			1,502	1,202	25%

PRODUCT SALES

Sales in the year ended December 31, 2013 increased by \$1,359,000 or 26% primarily as a result of higher sales volumes of avenanthramides, oat oil, and veterinary shampoo.

Sales in the fourth quarter of 2013 increased by \$300,000 or 25% primarily as a result of higher sales volumes of avenanthramides and oat oil.

EXPENSES

COST OF GOODS SOLD AND GROSS MARGIN

	Year Ended December 31 2013 2012 CHANGE						
\$000\$				2013	2012	CHANGE	
Sales	6,524	5,165	26%	1,502	1,202	25%	
Cost of goods sold	3,425	2,716	26%	874	769	14%	
Gross margin	3,099	2,449	27%	628	433	45%	
Gross margin %	48%	47%		42%	36%		

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 year ended December 31, 2013, the cost of goods sold rose by \$709,000 or 26%, from \$2,716,000 in 2012 to \$3,425,000 in 2013. The gross margin in the year ended December 31, 2013 is higher by 27% due to higher sales. The gross margin percentage increased by 1% from 47% in the year ended December 31, 2012 to 48% in the same period of 2013 due to higher sales volume.

During the fourth quarter of 2013, the cost of goods sold increased by \$105,000 or 14%, from \$769,000 in 2012 to \$874,000 in 2013. The gross margin in the fourth quarter of 2013 is higher by 45% mostly due to higher sales. The gross margin percentage increased by 6% from 36% in the fourth guarter of 2012 to 42% in the same period of 2013 due to natural feedstock variations and a product sales mix weighted towards a higher margin product.

RESEARCH AND PRODUCT DEVELOPMENT

	Year Ended December 31						
\$0005	2013	2012	CHANGE	2013	2012	CHANGE	
Salaries and benefits	629	639		131	151		
Regulatory and patents	256	133		32	59		
Other	(172)	63		(3)	(84)		
	713	835	-15%	160	126	27%	
Product development – CeaProve®	18	21	-14%	3	3	0%	
Total research and product development expenditures	731	856	- 15%	163	129	26%	

During the year ended December 31, 2013, research and development expenses before CeaProve® development have decreased by 15% due to grant revenue recognition of discounted CAAP funding and grant contributions from Alberta Innovates Technology Futures and a federal government program offset by a significant increase in expenses for regulatory and patents of \$123,000. The large increase in patent cost was due to the issue of key beta glucan patents in several European countries. These patent costs are expected to provide significant value to Ceapro shareholders in the future.

CeaProve® costs have decreased by 14% from \$21,000 to \$18,000 as a result of lower costs for patent maintenance.

During the fourth quarter of 2013, research and development expenses before CeaProve® development increased by 27% or \$34,000 in comparison with the same period of 2012 due to increased research and development project activities, lower grant contributions, partially offset by decreased expenses for regulatory and patents of \$27,000.

CeaProve® costs were unchanged in the fourth quarter of 2013 versus the fourth quarter of 2012.

GENERAL AND ADMINISTRATION

	Year Ended December 31			Quarter Ended December 31		
\$000S	2013	2012	CHANGE	2013	2012	CHANGE
Salaries and benefits	626	475		159	129	
Consulting	274	407		71	133	
Board of directors compensation	139	155		31	33	
Insurance	115	120		28	33	
Accounting and audit fees	69	76		16	25	
Rent	94	97		28	25	
Public company costs	52	82		5	13	
Travel	124	113		32	36	
Depreciation	61	45		30	12	
Legal	44	123		8	20	
Other	111	102		35	23	
Total general and administration expenses	1,709	1,795	- 5%	443	482	-8%

During the year ended December 31, 2013, general and administration expenses decreased by \$86,000 or 5% from \$1,795 to \$1,709 primarily due to lower consulting and legal costs due to plant related feasibility studies conducted in 2012 but not in 2013 and to lower legal expenses mainly related to AVAC litigation. This was offset by increased expenses for salaries and benefits of \$151,000 mainly as a result of new positions related to new business development and engineering activities, and travel of \$11,000 due to increased business development activities.

General and administration expenses for the fourth quarter of 2013 decreased by \$39,000 or 8% from \$482,000 to \$443,000 primarily as a result of decreased expenses for consulting, legal, public company, and accounting and audit cost offset by increased expenses for salaries and benefits due to the same reasons as previously identified.

SALES AND MARKETING

	Year Ended December 31			Quarte Decem		
\$0005	2013	2012	CHANGE	2013	2012	CHANGE
Travel	24	60		-	13	
Consulting	9	101		9	16	
Courses, conferences & advertising	46	23		-	9	
Other	6	15		2	2	
Total sales and marketing	85	199	- 57%	11	40	-73%

The year ended December 31, 2013 showed a decrease in expenditures of \$114,000 or 57% versus 2012 due to a completion of a marketing strategy and brand evaluation project in the first half of 2012.

Sales and marketing expenses in the fourth quarter of 2013 decreased by \$29,000 or 73% in comparison with the same period of 2012 due to lower travel and conference attendance.

The Company anticipates continued participation and expenditures at targeted conferences. Our goal is to expand our business with existing customers and to explore potential opportunities with new customers.

FINANCE COSTS

	Year Ended December 31			Quarte Decen		
\$000S	2013	2012	CHANGE	2013	2012	CHANGE
Interest on royalty financial liability	25	38		5	10	
Interest on long-term loan	35	54		8	13	
New loan application and guarantee fees	2	-		(15)	-	
Interest on royalties to Guelph & AAFC	23	-		-	-	
Accretion of CAAP loan	42	18		12	6	
Bank charges	_	3			2	
	127	113	12%	10	31	-68%

As at December 31, 2012, royalty investors received royalties equal to 2.285% (2011 – 2.285%) of revenues from product sales and royalty, licence, 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 expenses will vary directly with fluctuations in eligible product sales, royalty, licence and product development fees, product sales mix, and any new royalty interest offerings that may be completed.

The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of \$1,339,625 available 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 \$42,000 in the year ended December 31, 2013 (2012 – \$18,000).

OTHER OPERATING LOSS (INCOME)

	Year Ended December 31			Quarter Ended December 31		
\$000\$	2013	2012	CHANGE	2013	2012	CHANGE
Foreign exchange loss (income)	23	29		13	(9)	
Loss on disposal of property and equipment	12	_		12	_	
Other loss (income)	(4)	(5)		2	(3)	
Plant relocation costs	240	_		78	_	
	271	24	1029%	105	(12)	- 975%

Foreign exchange loss in the year ended December 31, 2013 was \$23,000 in comparison with a loss of \$29,000 in 2012 due to the fluctuations of the US dollar versus the Canadian dollar in comparison with the same period of 2012.

DEPRECIATION AND AMORTIZATION EXPENSES

In the year ended December 31, 2013, the total depreciation and amortization of \$293,000 (2012 – \$293,000) was allocated as follows: \$62,000 to general and administration expense (2012 – \$46,000), \$6,000 to inventory (2012 – \$43,000), and \$225,000 (2012 – \$204,000) to cost of goods sold.

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.

		201	13		2012			
\$000S EXCEPT PER SHARE DATA	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues	1,503	1,997	1,012	2,012	1,202	1,283	1,490	1,190
Net income (loss)	(103)	123	(252)	408	(237)	(137)	(160)	(4)
Basic net income (loss) per common share	(0.002)	0.002	(0.004)	0.007	(0.004)	(0.002)	(0.003)	(0.000)
Diluted net income (loss) per common share	(0.002)	0.002	(0.004)	0.007	(0.004)	(0.002)	(0.003)	(0.000)

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

\$0005	December 31, 2013	December 31, 2012
Non-current assets	1,948	1,508
Current assets	3,149	2,378
Current liabilities	(2,212)	(2,566)
Total assets less current liabilities	2,885	1,320
Non-current liabilities	2,640	1,306
Shareholders' equity	245	14
Total capital employed	2,885	1,320

Non-current assets increased by \$440,000 due to a depreciation provision of \$293,000 and a loss on disposal of \$12,000 offset by the acquisition of \$716,000 of property and equipment and deposit amounts of \$29,000.

Current assets increased by \$771,000. Inventories were lower by \$466,000; accounts receivables and prepaid expenses were higher by \$266,000. Cash increased by \$1,680,000 and restricted cash and cash equivalent decreased in the amount of \$709,000.

Current liabilities totaling \$2,212,000 decreased by the net amount of \$354,000 mostly due to increased sales that resulted in decreased deferred revenue of \$629,000, restricted cash and cash equivalent received in 2013 under a capital expenditure grant agreement and recorded as deferred revenue expended in the amount of \$709,000. These were partially offset by the reclassification of employee future benefit obligation of \$146,000, an increase in the current portion of long-term debt of \$331,000, an increase in trade payables and accrued liabilities of \$416,000, a reclassification of the current portion of CAAP loan of \$73,000, and an increase in royalty interest obligations of \$18,000.

Non-current liabilities totaling \$2,640,000 increased by the net amount of \$1,334,000 due to long-term debt increases of \$1,464,000 and a discounted CAAP loan increased in the amount of \$70,000 offset by royalty financial liability decreased by \$110,000, and accrued employee future benefit obligation reclassified to current liabilities in the amount of \$90,000.

Equity of \$245,000 at December 31, 2013 increased by \$231,000 from equity of \$14,000 at December 31, 2012 due to net income for the period ended December 31, 2013 of \$176,000 and recognized share-based compensation of \$72,000 offset by accumulated other comprehensive loss of \$17,000.

NET DEBT

\$000\$	December 31, 2013	December 31, 2012
Cash and cash equivalents	1,953	273
Current financial liabilities*	1,705	867
Non-current financial liabilities*	2,513	1,089
Total financial liabilities	4,218	1,956
NET DEBT	2,265	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 \$582,000 due to an increase of cash and cash equivalent in the amount of \$1,680,000, an accounts payable and accrued liabilities increase of \$416,000, decreased royalty related obligations of

\$92,000, long-term debt increase in the amount of \$1,795,000, and an increased CAAP loan discounted amount recognized as \$143,000.

SOURCES AND USES OF CASH

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

		Ended mber 31	Quarter Ended December 31	
\$0005	2013	2012	2013	2012
Sources of funds:				
Funds generated from operations (cash flow)	621	(274)	(34)	(214)
Changes in non-cash working capital items	(50)	249	232	8
Restricted cash received and utilized	709	41	-	41
Grant used for capital assets	1,624	_	915	_
Repayable CAAP funding	198	350	67	167
Long-term debt, net of repayments	2,045	_	2,045	_
	5,147	366	3,225	2
Uses of funds:				
Purchase of property and equipment	(663)	(200)	(542)	(67)
Purchase of property and equipment for the new manufacturing facility	(1,641)	-	(1,012)	_
Purchase of prepaid deposits from grant	(37)		43	_
Purchase of licence	_	(44)	-	_
Deferred revenue reduction	(709)	(41)	-	(41)
Interest paid	(81)	(92)	(13)	(40)
Repayment of royalty financial liability	(87)	(69)	(26)	(24)
Repayable research funding repayment	_	(85)	-	(42)
Transaction costs	(81)		(81)	
Repayment of long-term debt	(168)	(154)	(43)	(39)
	(3,467)	(685)	(1,674)	(253)
Net change in cash flows	1,680	(319)	1,551	(251)

Net change in cash flow increased by \$1,999,000 during the year ended December 31, 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 and capital investment but believes there may be other cost uncertainties pertaining to commissioning and start up of a new plant.

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 April 14, 2014 were 60,403,948 (April 4, 2013 – 60,278,948). In addition, 3,950,000 stock options as at April 14, 2014 (April 4, 2013 – 4,130,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Ceapro's working capital was \$937,000 at December 31, 2013, which was increased by \$1,126,000 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 licence 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

- a) 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 year ended December 31, 2013, the Company received \$9,166 (2012 \$32,083) which was recorded as a reduction of research and product development expenses. This agreement has now been completed.
- b) 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 current year, the Company received \$62,000 (2012 \$20,750) which was recorded as a reduction of research and project development expenses. The Company anticipates receiving additional funding of \$41,250 in 2014 under this agreement.
- c) 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 year ended December 31, 2013 (2012 \$5,000). This agreement has now been completed.
- d) The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of \$1,339,625 receivable over the year 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 or recorded as receivable funding of \$671,068 to date under this program and no further funds are expected.
- e) During the year ended December 31, 2011, the Company entered into a Contribution Agreement with Alberta Innovates Bio Solutions (Al-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 received \$690,000 in 2013. The amount of \$1,398,777 (2012 \$41,223) was recorded as a reduction of capitalized expenditures. An amount of \$160,000 is expected to be received in 2014.
- f) 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 \$253,000 for certain research activities. This contribution agreement was amended to increase the potential non-repayable contribution amount to \$345,000 from \$253,000 in 2013. During the year ended December 31, 2013, the Company received or recorded as receivable the amount of \$302,909 (December 31, 2012 \$42,091). The agreement is now completed.

g) During the year ended December 31, 2013, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding in an amount up to \$673,000. During the year, the Company received or recorded as receivable the amount of \$192,345. The Company anticipates receiving up to \$480,655 in 2014.

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

RELATED PARTY TRANSACTIONS

During the period ended December 31, 2013, \$25,000 (2012 – \$19,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at December 31, 2013, \$6,000 (2012 – \$5,000) of royalties were payable to employees and directors.

During the period ended December 31, 2013, the Company paid key management salaries, short-term benefits, consulting fees, and director fees totaling \$672,000 (2012 – \$657,000) and key management personnel received share-based payments of \$41,000 (2012 – \$34,000).

Amount payable to directors was \$29,000 (2012 - \$29,000).

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 a licence 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 licence 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 licence 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 licence agreement remains in force. The agreements remain in force until the patents expire or are abandoned.

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

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 are very pleased with the 2013 results showing the highest full year revenue in Ceapro's history with an increase of 26.3% or \$ 1,359,000 over the full year ended December 31, 2012 as well as showing a net profit of \$176,000 compared to a net loss of \$538,000 in 2012. These results were achieved while advancing the construction of a new state-of-the-art manufacturing facility and investing in upcoming product launches.

The successful implementation and commissioning of the new facility remains our top priority for the first half of 2014. We expect the completion of construction to occur in May 2014 and currently anticipate to start producing first validation trials in Q3, 2014. In order to minimize supply continuity and start-up risks, we will run our two plants in parallel for a period of three months to ensure that product specifications are exactly the same in both facilities. We expect to exit the existing manufacturing facility by the end of September 2014. As part of our risk mitigation plan, we will be building significant inventory for our flagship product, avenanthramides, from which we expect a significant sales increase in 2014.

In addition, we expect to pursue our research and development program with dry formulations of our value drivers, avenanthramides and beta glucan that would be produced in our new facility. We are well on track to develop them as active ingredients to serve large markets like functional foods/drinks and nutraceuticals. New major investments would then be needed to assess their safety and efficacy through pre-clinical and clinical research programs to be conducted over a 24-month period. Transition to the functional food and/or nutraceutical sectors will represent a significant opportunity for Ceapro.

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.

** CONSOUDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

TO THE SHAREHOLDERS OF CEAPRO INC.,

The accompanying consolidated financial statements of Ceapro Inc., and all information presented in this report, are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards. The consolidated financial statements include some amounts that are based on the best estimates and judgments of Management. Financial information used elsewhere in the report is consistent with that in the consolidated financial statements.

To further the integrity and objectivity of data in the consolidated financial statements, Management of the Company has developed and maintains a system of internal controls, which Management believes will provide reasonable assurance that financial records are reliable and form a proper basis for preparation of consolidated financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in the report principally through its Audit Committee. The Audit Committee is appointed by the Board, and all of its members are outside and unrelated Directors. The Committee meets periodically with Management and the external auditors to discuss internal controls over the financial reporting process and financial reporting issues, to make certain that each party is properly discharging its responsibilities, and to review quarterly reports, the annual report, the annual consolidated financial statements, management's discussion and analysis, and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Company's auditors have full access to the Audit Committee, with and without Management being present.

The consolidated financial statements have been audited by the Company's auditors, Grant Thornton LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

SINCERELY,

SIGNED "Gilles Gagnon"

President and Chief Executive Officer

SIGNED "Branko Jankovic, CA"
Chief Financial Officer and Vice President, Finance

April 14, 2014



Independent auditor's report

Grant Thornton LLP 1701 Scotia Place 2 10060 Jasper Avenue NW

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To the Shareholders of Ceapro Inc.

We have audited the accompanying consolidated financial statements of Ceapro Inc., which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, and the consolidated statements of net income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

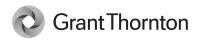
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ceapro Inc. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that to date the Company has not yet achieved consistent profitability. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Edmonton, Canada

April 14, 2014

Chartered Accountants

Grant Thornton LLP

CONSOLIDATED BALANCE SHEETS

	December 31 2013 \$	December 31 2012 \$
ASSETS		
Current Assets		
Cash and cash equivalents	1,953,019	273,106
Restricted cash and cash equivalents (note 9)	-	708,777
Trade receivables	250,859	253,401
Other receivables	279,413	199,787
Inventories (note 4)	323,582	790,057
Prepaid expenses and deposits	342,289	152,778
	3,149,162	2,377,906
Non-Current Assets		
Deposit	28,562	-
Licences (note 5)	66,254	73,717
Property and equipment (note 6)	1,853,024	1,434,345
	1,947,840	1,508,062
TOTAL ASSETS	5,097,002	3,885,968
Current Liabilities Accounts payable and accrued liabilities Current portion of deferred revenue (note 9) Current portion of long-term debt (note 7) Current portion of employee future benefits obligation (note 10) Current portion of CAAP loan (note 12) Royalties interest payable (note 8b) Current portion of royalty financial liability (note 8b)	994,408 361,309 499,718 145,973 72,942 31,631 106,692	578,216 1,699,110 168,637 – 25,037 95,378
	2,212,673	2,566,378
Non-Current Liabilities Royalty financial liability (note 8b)	_	109,931
Employee future benefits obligation (note 10)	127,009	217,219
Long-term debt (note 7)	2,222,298	757,898
CAAP loan (note 12)	290,529	220,978
	2,639,836	1,306,026
Equity	,,	,,
Share capital (note 11b)	6,315,858	6,315,858
Contributed surplus (note 11c)	503,829	431,792
Accumulated other comprehensive loss	(16,916)	-
Deficit	(6,558,278)	(6,734,086)
	244,493	13,564
TOTAL LIABILITIES AND EQUITY	5,097,002	3,885,968

See accompanying notes

Approved on Behalf of the Board

SIGNED: "John Zupancic"

Director

SIGNED: "Edward Taylor"

Director

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Year Ended December 31	2013 \$	2012 \$
Revenue (note 13)	6,524,062	5,165,276
Cost of goods sold	3,425,248	2,716,605
Gross margin	3,098,814	2,448,671
Research and product development	731,174	856,191
General and administration	1,709,053	1,795,476
Sales and marketing	84,897	198,650
Finance costs (note 16)	126,663	112,900
Income (loss) from operations	447,027	(514,546)
Other operating loss (note 15)	(271,219)	(23,807)
Net income (loss) for the year	175,808	(538,353)
Other comprehensive loss		
Actuarial loss on employee future benefit obligation (note 10)	(16,916)	_
Total comprehensive income (loss) for the year	158,892	(538,353)
Net income (loss) per common share (note 25):		
Basic	0.00	(0.01)
Diluted	0.00	(0.01)
Weighted average number of common shares outstanding	60,278,948	60,278,948

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive loss \$	Equity \$
Balance December 31, 2011	6,315,858	397,631	(6,195,733)	-	517,756
Share-based payments	-	34,161	_	-	34,161
Net loss for the year	-	-	(538,353)	-	(538,353)
Balance December 31, 2012	6,315,858	431,792	(6,734,086)	-	13,564
Share-based payments	_	72,037	-	_	72,037
Net income for the year	_	_	175,808	-	175,808
Other comprehensive loss (actuarial loss) (note 10)	-	_	_	(16,916)	(16,916)
Balance December 31, 2013	6,315,858	503,829	(6,558,278)	(16,916)	244,493

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31	2013 \$	2012
OPERATING ACTIVITIES	•	\$
Net income (loss) for the year	175,808	(538,353)
Adjustments to reconcile net income (loss) to cash and cash equivalents	173,000	(330,333)
provided by operating activities		
Finance costs	84,594	94,734
Depreciation and amortization	292,636	292,525
Loss on disposal of property and equipment	12,440	-
Accretion of CAAP loan (note 12)	42,070	18,166
Grant revenue recognized	(97,072)	(188,312)
Extinguishment of the original liabilities	-	(119,772)
Recognition of new liabilities	-	102,972
Employee future benefits obligation	38,847	29,917
Share-based payments	72,037	34,161
Net income (loss) for the year adjusted for non-cash items	621,360	(273,962)
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Trade receivables	2,542	197,858
Other receivables	(79,626)	(185,600)
Inventories	466,475	(98,646)
Prepaid expenses and deposits	(218,073)	(37,763)
Deferred revenue	(629,024)	418,809
Royalty liability accrued	(5,234)	(41,042)
Accounts payable and accrued liabilities	412,586	(4,912)
Net income (loss) for the year adjusted for non-cash and working capital items	(50,354)	248,704
	571,006	(25,258)
Interest paid	(80,988)	(91,956)
CASH GENERATED FROM OPERATIONS	490,018	(117,214)
INVESTING ACTIVITIES	(662,620)	(100.400)
Purchase of property and equipment Purchase of leasehold improvements	(662,639)	(199,489)
Purchase of prepaid deposits from grant	(1,640,714) (36,926)	_
Purchase of licences	(30,920)	(44,439)
- and and an inconcer	(2,340,279)	(243,928)
FINANCING ACTIVITIES		
Long-term debt	2,044,852	_
Transaction costs	(80,869)	_
Repayment of long-term debt	(168,502)	(154,465)
Grant used for purchasing of leaseholds, property and equipment, and prepaid		(134,403)
deposits	1,623,987	250.402
CAAP loan	197,495	350,492
Deferred revenue (note 9)	(708,777)	(41,223)
Restricted cash and cash equivalents (note 9) Repayable research funding repayment	708,777	41,223 (84,633)
Repayment of royalty financial liability	- (86,789)	(69,405)
repayment of toyalty intaricial hability	3,530,174	41,989
Increase (decrease) in cash and cash equivalents	1,679,913	(319,153)
Cash and cash equivalents at beginning of year	273,106	592,259
Cash and cash equivalents at end of year	1,953,019	273,106

See accompanying notes

Cash and cash equivalents are comprised of \$946,304 (2012 - \$137,150) on deposit with financial institutions, \$6,715 (2012 - \$135,956) held in money market mutual funds, and \$1,000,000 (2012 - \$nil) held in guaranted investment certificates.

:: Notes to Consolidated Financial Statements DECEMBER 31, 2013 AND 2012

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 under the symbol CZO. 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. Since inception, the Company has accumulated net losses, generated inconsistent operating cash flow, and has not yet achieved consistent profitability. During the year ended December 31, 2013, the Company recorded net income of \$175,808 and as of that date had accumulated a deficit of \$6,558,278.

The Company is currently in progress to complete a new manufacturing facility. This involves substantial capital expenditures for engineering and design, permitting, construction of leaseholds, equipment, as well as other related costs required to meet the requirements of major customers. The total investment required for these items is currently estimated at \$5,400,000, of which the Company has completed approximately \$2,650,000. The Company believes that based on work completed and paid to date and its cash resources, additional funds available to it under long-term debt facilities described in note 7(c), additional grant funds available under agreements described in note 24(e) and note 24(g), and other identified miscellaneous sources that it has the funding in place to complete the project.

When a new manufacturing facility is brought into commercial production, there is always a risk as to the magnitude of investment of human and financial resources required for start up and commissioning activities. While the Company intends to fully utilize its expertise to complete these activities and minimize risks, there is considerable risk inherent in these activities. Additional funds may be required to conduct these essential activities.

The Company will have much higher debt repayment requirements in 2014 as a result of the two new long-term debt facilities entered into in 2013. The Company may need to supplement its operating cash flows with additional cash resources to maintain compliance with all debt agreements.

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 and liabilities, revenues and expenses, and the balance sheet classification used if the Company were unable to continue operations. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

A) STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Board of Directors authorized these consolidated financial statements for issue on April 14, 2014.

B) BASIS FOR PRESENTATION

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

The 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.

C) USE OF MANAGEMENT CRITICAL JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to make critical judgments, estimates, and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses recorded during the reporting period. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management critical judgments

Policies that are critical for the presentation of the financial position and financial performance of the Company and that require judgments are discussed below.

FUNCTIONAL CURRENCY

The functional currency for the Company and each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates; the Company has determined the functional currency of each entity to be the Canadian dollar. Such determination involves certain judgments to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

LEASES

Management considers all current leases as operational. In making their judgment, management considered the detailed criteria for the capital lease recognition set out in IAS 17 *Lease* and, in particular, whether the Company had been transferred substantially all the risks and rewards incidental to ownership.

Management estimates and assumptions

Policies that are critical for the presentation of the financial position and financial performance of the Company and that require estimates and assumptions are discussed below.

EMPLOYEE BENEFITS

The Company has an unfunded post-employment defined benefit pension plan. The liability for this plan is presented in the balance sheet of the Company. The costs related to this pension plan are included in profit or loss. The critical assumption used to determine the Company's obligation is the discount rate applied to the obligation. Management determines the appropriate discount rate at the end of each year by considering the interest rate of high quality corporate bonds that have terms to maturity approximating the terms of the obligation.

PROVISIONS

The Company records provision for matters where a legal or constructive obligation exists at the balance sheet date, as a result of past events and a reliable estimate can be made of the obligation. These matters might include restructuring projects, legal matters, disputed issues, indirect taxes, and other items. These obligations may not be settled for a number of years and a reliable estimate has to be made of the likely outcome of each of these matters. These provisions represent our best estimate of the costs that will be incurred, but actual experience may differ from the estimates made and therefore affect future financial results. The effects would be recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAXATION

The Company makes estimates in respect of tax liabilities and tax assets. Full provision is made for future and current taxation at the rates of tax prevailing at the year end unless future rates have been substantively enacted. These calculations represent our best estimate of the costs that will be incurred and recovered, but actual experience may differ from the estimates made and therefore affect future financial results. The effects would be recognized in profit or loss, primarily through taxation.

The Company recognizes the deferred tax benefit related to deferred tax assets to the amount that is probable to be realized. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred tax assets.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Cost of inventory includes cost of purchase (purchase price, import duties, transport, handling, and other costs directly attributable to the acquisition of inventories), cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions are made in profit or loss of the current period on any difference between book value and net realizable value.

PROPERTY AND EQUIPMENT

The Company provides for depreciation expense on property and equipment at rates designed to amortize the cost of individual items and their material components over their estimated useful lives. Management makes estimates of future useful life based on patterns of benefit consumption and impairments based on past experience and market conditions. Impairment losses and depreciation expenses are presented in profit or loss of the current period.

LICENCES

The Company amortizes licences over their estimated useful lives. Management makes estimates of future useful life based on patterns of benefit consumption, terms of licence agreements, and impairments based on past experience and market conditions. Impairment losses and depreciation expenses are presented in profit or loss of the current period.

ROYALTIES

The Company has a royalty financial obligation liability. The obligation is based on the present value of management's best estimate for eventual repayment which is based on estimated future sales. Changes in the sales estimates could significantly affect the value of the obligation at each reporting date. The effects are recognized in profit or loss in the current period.

When funding from royalty agreements is received, management is required to recognize a liability initially at fair value. To estimate the fair value of the obligation, the Company makes estimates of future cash flows and discounts those cash flows at an estimated prevailing market rate of interest for a similar instrument. Management updates the estimated future cash flows required under the royalty agreements at each reporting date to assess whether the value of obligation should be adjusted. The effects of any change in the obligation are recognized in profit or loss in the current period.

SHARE-BASED PAYMENTS

The fair value of share based payments is determined using the Black Scholes option pricing model based on estimated fair values at the date of grant. The Black Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the award. Changes in these assumptions can significantly affect the fair value estimate. For more information see note 11.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, demand deposits, and all highly liquid short-term investments with original maturities of three months or less.

E) REVENUE RECOGNITION

Revenues are measured at the fair value of consideration received or receivable. Revenue is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, the costs incurred or to be incurred can be measured reliably, and the Company maintains no continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

F) INVENTORIES

Inventories are valued at the lower of cost and net realizable value.

Costs of inventory include costs of purchase, costs of conversion, and any other costs incurred in bringing the inventories to their present location and condition. Costs of conversion include direct costs (materials and labor) and indirect costs (fixed and variable production overheads). Fixed overheads are allocated based on normal capacity. Raw materials are assigned costs by using a first-in-first-out cost formula and work-in-progress, and finished goods are assigned costs by using a weighted average cost formula.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

G) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Depreciation methods and rates are calculated as follows:

Manufacturing equipment 10 years straight-line
Office equipment 20% declining balance
Computer equipment 30% declining balance
Leasehold improvements over the term of the lease

Cost for property and equipment includes the purchase price, import duties, non-refundable taxes, and any other costs directly attributable to bringing the asset into the location and condition to be capable of operating. Significant parts of an item of property and equipment with different useful lives are recognized and depreciated separately. Depreciation commences when the asset is available for use. The asset's residual values, useful lives, and method of depreciation are reviewed at each financial year end and adjustments are accounted for prospectively if appropriate. An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of an asset is included in profit or loss in the period the asset is derecognized.

H) BORROWING COSTS

Borrowing costs are capitalized when such costs are directly attributable to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to prepare for its intended use. All other borrowing costs are recognized as an expense in the period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I) IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of property and equipment and intangible assets with a finite life are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purpose of measuring recoverable cash flows, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or CGUs). If such indication exists, the Company estimates the recoverable amount of the assets, which is the higher of its fair value less costs of disposal and its value in use. Value in use is estimated as the present value of future cash flows generated by this asset or CGU including eventual disposal. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and an impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimated recoverable amount and the carrying amount that would have been recorded, had no impairment loss been recognized previously. Any such recovery is recognized immediately in profit or loss.

J) LEASES

Leases are classified as finance or operating leases. A lease is classified as a finance lease if it effectively transfers substantially the entire risks and rewards incidental to ownership.

At the commencement of the lease, the Company recognizes finance leases as an asset acquisition and an assumption of an obligation in the consolidated balance sheet at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the incremental borrowing rate is used. The interest element of the lease payment is recognized as finance cost over the lease term to achieve a constant periodic rate of interest on the remaining balance of the liability. Any initial direct costs of the lessee are added to the amount recognized as an asset. The useful life and depreciation method is determined on a consistent basis with the Company's policies for property and equipment. The asset is depreciated over the shorter of the lease term and its useful life.

All other leases are accounted for as operating leases, wherein payments are expensed on a straight-line basis over the term of the lease.

K) INTANGIBLE ASSETS

Licences

Licences are recorded at cost and are amortized straight-line over the life of the licence.

Research and product development expenditures

Research costs are expensed when incurred. Product development costs are also expensed when incurred unless the Company can demonstrate all of the following:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) its intention to complete the intangible asset and use or sell it;
- (c) its ability to use or sell the intangible asset;
- (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (e) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset;
- (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Costs are reduced by government grants and investment tax credits where applicable.

Following initial capitalization of product development expenditures, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses. Amortization commences when product development is completed and the asset is available for use. It is amortized over the period of expected future economic benefit. The expected lives of assets are reviewed on an annual basis and if necessary, changes in useful lives are accounted for prospectively.

L) TRADE RECEIVABLES

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss within operating costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating costs in profit or loss.

M) FOREIGN CURRENCY TRANSACTIONS

The Canadian dollar is the functional and presentation currency of the Company and each of the Company's subsidiaries.

Foreign currency monetary assets and liabilities of the Company and its subsidiaries are translated using the period end closing rate and non-monetary assets and liabilities, measured at historic cost, are translated at the rate of exchange at the date of the transaction. Foreign currency transactions are translated at the spot exchange rate which is in effect at the date of the transaction. Foreign currency gains or losses arising on translation are included in other operating income (loss) in profit or loss.

N) INCOME TAXES

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case the tax expense is also recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates and laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. Changes to these balances, including changes due to changes in income tax rates, are recognized in profit or loss in the period in which they occur.

Deferred tax assets are recognized to the extent future recovery is probable. Deferred tax assets are reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

O) GOVERNMENT ASSISTANCE

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants are recognized as an offset to expenses over the periods in which the Company recognizes expenses which the grants are intended to compensate. Government grants related to assets are recognized as cost reduction of the assets and reduce depreciation over the expected useful life of the related assets.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P) INVESTMENT TAX CREDITS

Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided it is probable that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

Q) INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per common share is computed by dividing the income (loss) by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if the Company's convertible securities and convertible debentures were converted to common shares. Diluted income (loss) per common share is calculated by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effect of all dilutive potential common shares. When the Company is in a net loss position, the conversion of convertible securities is considered to be anti-dilutive.

R) SHARE-BASED PAYMENTS

The Company issues equity-settled share-based awards to eligible employees, directors, officers, and consultants under stock option plans that vest over periods ranging from 2 years to 10 years and have a maximum term of ten years. Share-based payments are accounted for using the fair value method, whereby compensation expense related to these programs is recorded in profit or loss with a corresponding increase to contributed surplus. The fair value of options granted is determined using Black-Scholes option pricing model at the grant date and expensed over the vesting period. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates estimated forfeitures will change. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

S) 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 that have terms to maturity approximating the terms of the obligation. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur. The Company recognizes actuarial gains and losses in other comprehensive income or loss.

T) PROVISIONS

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

U) TRADE AND OTHER PAYABLES

Trade and other payables, including accruals, are recorded when the Company is required to make future payments as a result of purchases of assets or services. Trade and other payables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest rate method.

V) FINANCIAL INSTRUMENTS

All financial instruments are measured at initial recognition at fair value plus any transaction costs that are directly attributable to the acquisition of the financial instruments except for transaction costs related to financial instruments classified as at fair value through profit or loss ("FVTPL") which are expensed as incurred. The Company has designated its financial instruments as follows:

i) Cash and cash equivalents, restricted cash and cash equivalents, and trade and other receivables have been classified as loans and receivables and are measured at amortized cost using the effective interest method, less any

allowance for uncollectability. The Company recognizes purchase or sale of financial assets using trade date accounting.

ii) Accounts payable and accrued liabilities, long-term debt, royalties payable, the royalty financial liability, deferred revenue related to prepaid sales orders, and the CAAP loan are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

W) CONSOLIDATED STATEMENT OF CASH FLOWS

The Company prepares its consolidated statement of cash flows using the indirect method.

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 previously recognized actuarial gains and losses in profit or loss. Under the new standard, actuarial gains and losses will be recognized in other comprehensive income or loss. The Company retrospectively adopted IAS 19 – Employee Benefits ("IAS 19") amendment beginning the first quarter of its 2013 financial year. The impact of adopting this section was not significant and as such retrospective adjustment to actuarial gains and losses were not recorded.

Consolidation

In May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements ("IFRS 10"), which supersedes SIC 12 and the requirements relating to consolidated financial statements in IAS 27 – Consolidated and Separate Financial Statements ("IAS 27"). IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances.

IFRS 10 establishes control as the basis for an investor to consolidate its investees, and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee.

In addition, the IASB issued IFRS 12 – Disclosure of Interest in Other Entities ("IFRS 12") which combines and enhances the disclosure requirements for the Company's subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Company's interests in other entities and the effect of those interests on the Company's consolidated financial statements.

Concurrently with the issuance of IFRS 10, IAS 27 and IAS 28 – Investments in Associates ("IAS 28") were revised and reissued as IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures to align with the new consolidation guidance.

The Company has adopted IFRS 10 – Consolidated Financial Statements ("IFRS 10"), IFRS 12 – Disclosure of Interest in Other Entities ("IFRS 12"), reissued IAS 28 – Investments in Associates and Joint Ventures ("IAS 28"), and IAS 27 – Separate Financial Statements beginning the first quarter of its 2013 fiscal year with no significant impact to its consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES

In May 2011, the IASB issued IFRS 11 – Joint Arrangements ("IFRS 11"), which supersedes IAS 31 – Interest in Joint Ventures and SIC-13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint ventures") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognizes its portion of assets, liabilities, revenues, and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method.

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

In May 2011, as a result of a convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 – Fair value Measurement ("IFRS 13"). IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized.

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 accounting policies not yet adopted

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 principle-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 has not yet been determined by the IASB. 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 inventories at the end of each reporting period:

	December 31 2013 \$	December 31 2012 \$
Raw materials	224,671	258,439
Work in progress	-	113,399
Finished goods	98,911	418,219
	323,582	790,057

Inventories expensed to cost of goods sold during the year ended December 31, 2013 are \$3,360,544 (December 31, 2012 – \$2,655,930).

During the year ended December 31, 2013, the Company decreased the carrying value of inventory by \$28,447 (2012 – \$98,634) due to lower estimated realizable values from certain finished goods and included this amount in cost of goods sold.

5. LICENCES

During the year ended December 31, 2012, the Company entered into a new licence 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 commenced amortizing the licence over 15 years, in April 2012. Amortization of \$2,963 has been included in general and administration for the year ended December 31, 2013 (December 31, 2012 – \$2,222) (see note 20(d)).

During the year ended December 31, 2011, the Company entered into a new licence 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 licencing fee of \$30,000 in 2008 and \$15,000 in 2011. The remaining unamortized portion of the licence fee from 2008 and the new fee in 2011 is being amortized over 10 years, being the term of the new licence agreement, commencing in 2011. Amortization of \$4,500 has been included in general and administration for the year ended December 31, 2013 (December 31, 2012 – \$4,500) (see note 20(c)).

Cost of Licences	\$
Balance – December 31, 2011	45,000
Additions	44,439
Balance – December 31, 2012	89,439
Additions	-
Balance – December 31, 2013	89,439
Accumulated amortization	
Balance – December 31, 2011	9,000
Amortization	6,722
Balance – December 31, 2012	15,722
Amortization	7,463
Balance – December 31, 2013	23,185
Net book value	
Balance – December 31, 2013	66,254
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, 2011	207,750	2,784,962	77,281	257,393	120,364	3,447,750
Additions	20,921	138,306	2,753	37,509	-	199,489
Transfer to manufacturing equipment	(204,301)	204,301	_	_	-	_
December 31, 2012	24,370	3,127,569	80,034	294,902	120,364	3,647,239
Additions	3,569	651,805	2,066	5,199	1,640,714	2,303,353
Disposal	-	(31,045)	_	-	_	(31,045)
Cost reduced by grant	-	(103,284)	_	-	(1,483,777)	(1,587,061)
December 31, 2013	27,939	3,645,045	82,100	300,101	277,301	4,332,486
Accumulated depreciation						
December 31, 2011	-	1,545,508	62,108	201,773	117,702	1,927,091
Depreciation	_	255,451	3,426	24,264	2,662	285,803
December 31, 2012	_	1,800,959	65,534	226,037	120,364	2,212,894
Depreciation	_	260,253	3,176	21,744	_	285,173
Disposal		(18,605)	_	-	_	(18,605)
December 31, 2013	_	2,042,607	68,710	247,781	120,364	2,479,462
Carrying value						
December 31, 2013	27,939	1,602,438	13,390	52,320	156,937	1,853,024
December 31, 2012	24,370	1,326,610	14,500	68,865	_	1,434,345

Leasehold improvements for the new manufacturing facility are not being amortized as the facility is not yet in the condition necessary to commence commercial operations.

Depreciation expense allocation for the following periods:

	Cost of goods sold \$	Inventory \$	General and administration \$	Total \$
Year Ended December 31, 2013	225,214	6,273	53,686	285,173
Year Ended December 31, 2012	204,222	42,989	38,592	285,803

7. LONG-TERM DEBT

	December 31 2013 \$	December 31 2012 \$
Loan payable secured by a general security agreement due January, 2018 (a).	758,033	926,535
Loan payable secured by certain intellectual property due January, 2019 (b).	1,465,500	_
Loan payable secured by a general security agreement due April, 2019 (c).	579,352	-
Transaction costs	(80,869)	-
	2,722,016	926,535
Less current portion	499,718	168,637
	2,222,298	757,898

Interest expense is presented under finance costs for the following periods:

Year Ended December 31, 2013	35,455
Year Ended December 31, 2012	54,148

- (a) During the year ended December 31, 2012, the loan was renewed to January 1, 2018 at an interest rate of 3.71% with monthly payments of \$16,674 starting February 1, 2013. The loan is secured by a general security agreement covering all present and after acquired personal property subject by a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 7 (b).
- (b) During the year ended December 31, 2013, the Company entered into a new loan agreement which is secured by certain intellectual property and due January 2, 2019. The loan, for 1 million Euro, is repayable over 5 years at an interest rate of 2.85%. At December 31, 2013, the loan balance was \$1,465,500 in Canadian currency. Monthly blended principal and interest payments in the amount of \$17,902 Euro commence February 1, 2014. Based on the exchange rate at December 31, 2013, the monthly payment is \$26,235 in Canadian currency.
- (c) During the year ended December 31, 2013, the Company entered into a new loan secured by a general security agreement and due April 1, 2019. The loan can be drawn to maximum \$1,600,000 Canadian dollars, is repayable over a 5-year term, and has an interest rate of 3.91%. At December 31, 2013, \$579,352 was drawn on this loan. Assuming the loan is fully drawn to \$1,600,000, monthly blended principal and interest repayment in the amount of \$29,352 will commence on May 1, 2014. The loan is secured by a general security agreement covering all present and after acquired personal property subject by a subordination of the claim for certain intellectual property that has been pledged as security for the long-term debt described in note 7(b).

The Company is in compliance with all terms and conditions of its long-term debt agreements.

8. ROYALTIES PAYABLE

a) In the year ended December 31, 2004, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling \$250,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2013, \$225,000 (2012 - \$225,000) of this commitment has been received and the remaining \$25,000 was decommitted. CTI is obligated to pay a royalty (to a maximum of two times the financial assistance received) on sales generated from CeaProve® on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. No royalties have been paid or accrued during the current or prior years. CTI has repaid at December 31, 2013 \$nil (2012 - \$nil) of this obligation. Upon completion of the repayment of the financial assistance received, CTI will also be required to repay \$19,750 advanced during the year ended December 31, 2002. The portion of this obligation paid or accrued as at December 31, 2013 was \$nil (2012 - \$nil). The potential amount payable per agreement as at December 31, 2013 is \$469,750 (2012 - \$469,750) (see note 8(e)).

b) On December 28, 2005, the Company sold a 2.285% royalty interest in the Company's future sales and licencing of certain active ingredients, animal health, and CeaProve® products for \$457,000. The maximum royalties payable are two times the amount invested or \$914,000. The portion of this obligation paid or accrued as at December 31, 2013 was \$789,345 (2012 - \$666,407). During the year, the Company repaid \$116,343 through cash payments (2012 - \$104,579). The balance of royalties payable under this offering as at December 31, 2013 totaled \$31,631 (2012 - \$25,037). The potential amount payable per agreement as at December 31, 2013 is \$124,655 (2012 - \$247,593) (see note 8(e)). The balance outstanding was set up as a royalty financial liability which results in a discounted liability of \$106,692 (2012 – \$205,309).

	Year Ended December 31 2013 \$	Year Ended December 31 2012 \$
Opening amount of royalties interest payable	25,037	33,366
Royalty expense recognized	122,937	96,250
Amount paid during the year	(116,343)	(104,579)
Closing amount of royalties interest payable	31,631	25,037
Opening amount of royalty financial liability	205,309	263,623
Principal repayment of the discounted amount during the year	(98,617)	(58,314)
Closing amount of royalty financial liability	106,692	205,309
Less current portion	106,692	95,378
	-	109,931
Interest expense paid during the year	24,320	37,936

c) In the year ended December 31, 2005, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. (CVP), received a commitment for financial assistance totaling \$362,250 for product innovation development in the area of Veterinary Therapeutics and Active Ingredients. As at December 31, 2013, \$362,250 (2012 - \$362,250) of the commitment has been received. The Company and CVP are obligated to pay a 2.5% royalty to a maximum of \$75,000 per guarter (to a maximum of two times the financial assistance received or \$724,500) on sales generated from products developed using these funds. The portion of the obligation accrued and paid at December 31, 2013 was \$940 (2012 – \$584). The potential amount payable per agreement as at December 31, 2013 is \$723,560 (2012 - \$723,916) (see note 8(e)).

d) In the year ended December 31, 2005, the Company's wholly-owned subsidiary, Ceapro Technology Inc. (CTI), received a commitment for financial assistance totaling \$800,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2013, \$510,000 of this commitment has been received (2012 – \$510,000) and the remaining \$290,000 has been decommitted. CTI is obligated to pay a royalty (to a maximum of one and a half times the financial assistance received or \$765,000) on sales of CeaProve® on the following basis: 0% of net sales and net sub-licencing revenues earned until royalty payments have been fully satisfied under the investment agreement in note 8(a), and 5% thereafter until repaid to a maximum of \$125,000 per quarter. No royalties have been incurred during the current year. The portion of this obligation paid or accrued as at December 31, 2013 was \$nil (2012 – \$nil). The potential amount payable per agreement as at December 31, 2013 is \$765,000 (2012- \$765,000) (see note 8(e)).

e) Potential royalties payable as at December 31, 2013, and 2012:

		Potential amount payable at	Potential amount payable at
Notes	Year of agreement	December 31, 2013	December 31, 2012
	rear or agreement	2013	2012
8 (a)	2004	469,750	469,750
8 (b)	2005	124,655	247,593
8 (c)	2005	723,560	723,916
8 (d)	2005	765,000	765,000
Total		2,082,965	2,206,259

As the funding received in items a), c) and d) above is contingently repayable, it constitutes a liability that is recognized initially at fair value and subsequently at amortized cost using the effective interest method. As the initial fair value was estimated to be negligible, funding received was recorded as revenue and no liability was recorded. Management updates the estimate of future cash flows required under these agreements at each reporting date to assess whether the expected repayments constitute a significant liability. When a liability needs to be recognized, a fair value adjustment is required.

9. DEFERRED REVENUE

During the year ended December 31, 2011, the Company received \$750,000 under a non-repayable capital expenditure grant agreement with Alberta Innovates Bio-Solutions (Al-Bio Solutions) and a subsequent amount of \$690,000 in 2013 (note 24(e)). During the year ended December 31, 2013, the Company has expended \$1,398,777 (2012 – 41,223). The balance of this grant of \$nil (2012 – \$708,777) is presented as deferred revenue and restricted cash and cash equivalents on the balance sheet.

Deferred revenue also consists of \$361,309 (2012 – \$990,333) for prepaid sales orders.

10. 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 short-term nature, which is consistent with the nature of the revised agreement. Actuarial losses of \$16,916 arose from changes of discount rate from 4.19% in 2012 to 2.3% in 2013.

The agreement was revised during the year ended December 31, 2013 and the total amount of \$277,009 will be paid as per the following installments:

January 1, 2014	\$50,000
July 1, 2014	\$100,000
January 1, 2015	\$127,009
Total:	\$277,009

As a result of an amendment to the agreement, the Company recorded a loss on curtailment of \$14,815. The present value of the installments at December 31, 2013 was \$272,982 and no further expenses under current service costs will be incurred as a result of this amendment.

Accrued benefit obligation	Year Ended December 31 2013 \$	Year Ended December 31 2012 \$
Unfunded balance, beginning of year	217,219	187,302
Current service cost	18,301	21,606
Loss on curtailment (or past service costs)	14,815	_
Interest costs on accrued benefit obligation	5,731	8,311
Actuarial losses, net of \$nil tax	16,916	-
	272,982	217,219
Less current portion	145,973	_
	127,009	217,219

Elements of defined benefit costs recognized in the year	Year Ended December 31 2013 \$	Year Ended December 31 2012 \$
Current service cost	18,301	21,606
Loss on curtailment	14,815	-
Interest cost on accrued benefit obligation	5,731	8,311
	38,847	29,917

Defined benefit costs have been presented under research and product development expenses in the consolidated statements of net income (loss) for the year.

11. 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

		Year Ended December 31, 2013		led 1, 2012
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance at beginning of the year	60,278,948	6,315,858	60,278,948	6,315,858
Share issued during the year	-	_	-	-
Balance at end of the year	60,278,948	6,315,858	60,278,948	6,315,858

C. CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	2013 \$	2012 \$
Balance at beginning of year	431,792	397,631
Share-based payments (note11(d))	72,037	34,161
	503,829	431,792

D. STOCK OPTIONS AND SHARE-BASED PAYMENTS

The Company has granted stock options to eligible employees, directors, officers, and consultants under stock option plans that vest over periods ranging from two years to ten years and have a maximum term of ten years.

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 year ended December 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 year ended December 31, 2013 were \$0.05 (2012 – \$0.09) per option.

The share-based payments expense recorded during the current year relating to options granted in 2013, 2012, and 2011 was \$72,037 (during 2012 relating to options granted in 2012, 2011, and 2010 – \$34,161).

11. SHARE CAPITAL (CONTINUED)

A summary of the status of the Company's stock options at December 31, 2013 and 2012 and changes during the years ended on those dates is as follows:

	20	13	201	2
		Weighted Average		Weighted Average
	Number of Options	Exercise Price \$	Number of Options	Exercise Price \$
Outstanding at beginning of year	2,940,000	0.13	3,170,000	0.16
Granted	1,400,000	0.10	300,000	0.10
Expired	(810,000)	0.15	(490,000)	0.28
Forfeited	(385,000)	0.12	(40,000)	0.10
Outstanding at end of year	3,145,000	0.11	2,940,000	0.13
Exercisable at end of year	2,201,667	0.12	2,606,667	0.13

E. STOCK OPTIONS OUTSTANDING ARE AS FOLLOWS:

Fair Value \$	Exercise Price \$	Year of Expiration	Weighted Average Contractual Life Remaining (years)	December 31 2013 Number of Options	December 31 2012 Number of Options
0.05	0.10	2023	9.0	1,265,000	_
0.09	0.10	2022	8.5	300,000	300,000
0.11	0.15	2016	2.5	325,000	400,000
0.06	0.10	2015	1.7	430,000	530,000
0.10	0.13	2014	0.5	825,000	900,000
0.08	0.12	2013	_	-	600,000
0.15	0.25	2013	_	-	210,000
			5.1	3,145,000	2,940,000

12. 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 resulting in amended 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 December 31, 2014 respectively. All amounts claimed under the program are repayable interest free over eight years beginning in 2014.

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.

As the start date of principal repayment was changed to 2014, during the year ended December 31, 2012, the present value of the remaining cash flow was revised. The Company applied extinguishment accounting and derecognized the old loan and set up a new loan with the difference presented in the consolidated statements of net (loss) income under research and product development expenditures (consistent with the current treatment).

The balance of repayable contribution is derived as follows:

	Year Ended December 31	
	2013 \$	2012 \$
Opening balance	220,978	57,432
Funding received or receivable	197,495	350,492
Grant revenue recognized	(97,072)	(188,312)
Extinguishment of the original liabilities	-	(119,772)
Recognition new liabilities	-	102,972
Accretion of CAAP loan	42,070	18,166
	363,471	220,978
Less current portion	72,942	_
	290,529	220,978

The principal repayment required for amounts received or receivable from inception to December 31, 2013 is \$83,883 annually from 2014 through 2021.

13. SALES

During the year ended December 31, 2013, the Company had export sales to two customers of the Company's products in the aggregate amount of \$6,042,428 (2012 – to two customers in the amount of \$4,806,152). The Company is therefore dependent on those customers to maintain and expand the volume of product sales.

14. RELATED PARTY TRANSACTIONS

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

	Year Ended December 31	
	2013 \$	2012 \$
Royalties earned by employees and directors	24,889	19,482
Amounts payable to employees and directors included in royalties payable	5,967	4,632
Key management salaries, short-term benefits, consulting fees, and director fees	671,838	656,555
Key management personnel share based payments	40,754	33,817
Amount payable to directors	28,750	28,750

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.

15. OTHER OPERATING LOSS (INCOME)

Year Ended December 31	2013 \$	2012
Foreign exchange loss	22,803	29,295
Loss on disposal of property and equipment	12,440	_
Other (income)	(4,103)	(5,488)
Plant relocation costs	240,079	_
	271,219	23,807

16. FINANCE COSTS

Year Ended December 31	2013 \$	2012 \$
Interest on royalty financial liability	24,678	38,286
Interest on long-term loan	35,455	54,148
Transaction costs	1,960	_
Royalties to University of Guelph & AAFC	22,500	_
Accretion of CAAP loan	42,070	18,166
Bank charges	_	2,300
	126,663	112,900

17. INCOME TAXES

A) NON-CAPITAL LOSSES

The Company has accumulated non-capital losses carried forward for federal income tax purposes of approximately \$13,214,029 and for provincial income tax purposes of approximately \$13,061,364, the benefit of which has not been reflected in these consolidated financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and expire between 2015 and 2033.

B) CAPITAL LOSSES

The Company has accumulated capital losses of approximately \$6,807,000, which can be carried forward indefinitely to offset future capital gains.

C) SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (SR & ED)

The Company has accumulated an SR & ED expenditure pool of approximately \$1,887,300, which can be carried forward indefinitely to be applied against future taxable income.

The Company has accumulated SR & ED investment tax credits of approximately \$509,000. These credits may be applied against future federal income taxes payable and expire between 2029 and 2032.

D) UNRECOGNIZED DEFERRED TAX ASSET

A deferred income tax asset reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of the Company's unrecognized deferred income tax asset are as follows:

INCOME TAX EFFECT OF DEDUCTIBLE TEMPORARY DIFFERENCES:	2013 \$	2012 \$
Deductible temporary differences	1,284,347	1,001,992
Tax losses	4,139,160	4,263,362
Unrecognized deferred tax assets	5,423,507	5,265,354

For consolidated financial statement purposes, no deferred income tax asset has been recorded at December 31, 2013 and 2012 as it is not likely to be realized.

E) INCOME TAX RECONCILIATION

The Company's consolidated income tax position comprises tax benefits and provisions arising from the respective tax positions of its taxable entities. The Company's income tax provision differs from that calculated by applying statutory rates for the following reasons:

	2013 \$	2012 \$
Income taxes based on federal and provincial statutory income tax rate of 25% (2012 – 25%)	43,952	(134,589)
Tax effect of expenses that are not deductible	20,137	10,089
Prior period tax adjustments	(218,013)	-
Other	-	(2,858)
Current year items where deferred tax asset not recognized	153,924	127,358
	_	-

18. 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:

Year Ended December 31	2013 \$	2012 \$
United States	5,228,790	3,797,565
Germany	1,072,936	1,151,132
Other	202,897	125,630
Canada	19,439	90,949
	6,524,062	5,165,276

19. EMPLOYEE BENEFITS

	2013	2012
Year Ended December 31	\$	\$
Employee benefits	2,312,480	2,123,375

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

20. 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 a licence 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 licence 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 licence 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 licence agreement remains in force. The agreement remains in force until the patents expire or are abandoned.

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.

21. OPERATING LEASE

The Company incurred \$508,626 in 2013 (2012 – \$346,248) under operating leases. These amounts were recorded as follows: general and administration expenses of \$90,120 (2012 – \$96,819), research and development expenses of \$nil (2012 – \$14,754), and cost of goods sold of \$267,103 (2012 – \$234,675), and other operating loss of \$151,403 (2012 – \$nil).

The Company is committed to future annual payments under operating leases for manufacturing facilities, office space and warehouse starting April 1, 2013. Total lease commitments exclusive of operating costs from January 1, 2014 to March 31, 2025 are disclosed in the table below:

	0 - 1 Year \$	2 - 5 Years \$	6 - 12 Years \$	Total \$
New lease for plant	201,871	822,620	1,428,230	2,452,721
Warehouse	78,925	179,375	-	258,300
Total	280,796	1,001,995	1,428,230	2,711,021

The warehouse lease was executed subsequent to year end.

22.FINANCIAL INSTRUMENTS

The estimated fair value of the Company's financial instruments approximates the amount for which the financial instruments could currently be exchanged in an arms length transaction between willing parties who are under no compulsion to act.

The fair value of cash and cash equivalents, restricted cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, deferred revenue related to prepaid sales orders, 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 (level 2).

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 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 (level 2).

The royalty financial liability was estimated using a discount rate that results from the estimated future repayment of that obligation which is based on expected sales. 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 (level 3).

22.FINANCIAL INSTRUMENTS (CONTINUED)

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

A) CREDIT RISK

TRADE AND OTHER RECEIVABLES

The Company makes sales to customers that are well-established within their respective industries. Based on previous experience, the counterparties had zero default rates and management views this risk as minimal. Approximately 94% of trade receivables are due from two customers at December 31, 2013 and all trade receivables are current. These main customers present good credit quality and historically have a high quality credit rating.

Other receivables represent amounts due for research program claims, government goods and services taxes, and scientific and research tax credits. Management has assessed the credit risk to be low.

CASH AND CASH FOUIVALENTS

The Company has cash and cash equivalents in the amount of \$1,953,019 at December 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.

There are no past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's trade and other receivables, 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. The Company may be exposed to liquidity risks if it is unable to collect its trade and other receivables 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 trade receivables 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	994,408	-	_	_	994,408
Loan payable secured by certain intellectual property due January, 2019.	288,234	628,873	655,077	_	1,572,184
Loan payable secured by a general security agreement due April, 2019.	85,169	255,507	298,092	_	638,768
Long-term debt, including interest	200,082	400,164	216,756	_	817,002
Royalties interest payable	31,631	_	_	_	31,631
Royalty financial liability	106,692	-	_	-	106,692
Repayable CAAP funding	83,883	167,766	335,536	83,883	671,068
Total	1,790,099	1,452,310	1,505,461	83,883	4,831,753

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	FOREIGN EXCHANGE RISK (USD)		
AN (- 1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY	
Financial assets				
Accounts receivable	231,017	2,310	(2,310)	
Financial liabilities				
Accounts payable and accrued liabilities	219,405	(2,194)	2,194	
Total increase (decrease)		116	(116)	

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

(2) INTEREST RATE RISK

The Company has minimal interest rate risk because its long-term debt agreements are all at fixed rates.

23. 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, 2013.

24. GOVERNMENT ASSISTANCE

- a) 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 year ended December 31, 2013, the Company received \$9,166 (2012 \$32,083) which was recorded as a reduction of research and product development expenses. This agreement has now been completed.
- b) 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 current year, the Company received \$62,000 (2012 \$20,750) which was recorded as a reduction of research and project development expenses. The Company anticipates receiving additional funding of \$41,250 in 2014 under this agreement.

24. GOVERNMENT ASSISTANCE (CONTINUED)

- c) 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 year ended December 31, 2013 (2012 – \$5,000). This agreement has now been completed.
- d) The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of \$1,339,625 receivable over the year 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 or recorded as receivable funding of \$671,068 to date under this program and no further funds are expected.
- e) During the year ended December 31, 2011, the Company entered into a Contribution Agreement with Al-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 received \$690,000 in 2013. The amount of \$1,398,777 (2012 - \$41,223) was recorded as a reduction of capitalized expenditures. An amount of \$160,000 is expected to be received in 2014.
- f) 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 \$253,000 for certain research activities. This contribution agreement was amended to increase the potential non-repayable contribution amount to \$345,000 from \$253,000 in 2013. During the year ended December 31, 2013, the Company received or recorded as receivable the amount of \$302,909 (December 31, 2012 – \$42,091). The agreement is now completed.
- g) During the year ended December 31, 2013, the Company entered into an agreement under the Growing Forward 2 program to provide non-repayable grant funding in an amount up to \$673,000. During the current year, the Company received or recorded as receivable the amount of \$192,345. The Company anticipates receiving up to \$480,655 in 2014.

25. INCOME (LOSS) PER COMMON SHARE

Year Ended December 31	2013	2012
Net income (loss) for the year for basic and diluted earnings per share calculation	\$175,808	(\$538,353)
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	\$0.00	(\$0.01)
Income (loss) per share – diluted	\$0.00	(\$0.01)

For the year ended December 31, 2013, the Company's 3,145,000 stock options outstanding have not been included in the diluted income per share calculation because the options' exercise prices were greater than the average market price of the common shares during the year.

26. SUBSEQUENT EVENTS

Subsequent to the year end, the Company issued 930,000 stock options to officers, directors, and employees of the Company. The stock options have an exercise price of \$0.10 per common share and expire in 10 years.

Subsequent to the year end, 125,000 options were exercised for \$0.10 per common share.

:: Investor Information May 2014

DIRECTORS

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OFFICERS

Gilles Gagnon, M.Sc., MBA President & CEO Branko Jankovic, CA

Chief Financial Officer Vice President, Finance

REGISTERED OFFICE

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STOCK INFORMATION

Listed on the TSX Venture Stock Exchange Symbol: CZO

TRANSFER AGENT & REGISTRAR

Olympia Trust Company 2300 Palliser Square 125-9 Avenue SE Calgary, AB T6G 0P6 Canada

CHANGE OF ADDRESS

Registered Shareholders should notify the Company's Transfer Agent and Registrar at the address set out above.

Beneficial Owners should contact their respective brokerage firm to give notice of change of address.

FINANCIAL CALENDAR

The Company's year-end is December 31. Quarterly reports are mailed in May, August, and November.

ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

The annual general and special meeting of shareholders will be held on:

June 11, 2014 at 10am MDT

Location: 4th floor Enterprise Square 10230 Jasper Avenue NW Edmonton, AB T5J 4P6

EQUAL OPPORTUNITY EMPLOYER

Ceapro Inc. is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age, or disability.

Ceapro Inc.

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